

**SERVICE OUTSOURCING AND OPERATIONAL PERFORMANCE  
OF THE REAL ESTATE FIRMS IN NAIROBI CITY COUNTY**

**CHEMUTAI LINET**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**2019**

## DECLARATION

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

Signature.....

Date.....

**CHEMUTAI LINET**

**REG: D61/84393/2016**

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

Signature.....

Date.....

**ERNEST O. AKELO**

Nairobi University

## **ACKNOWLEDGEMENTS**

The successful completion of this piece of work has been attained with the assistance of a couple of individuals whom in one way or another have made invaluable input and seen the completion possible. Though I may not mention all of them, a special mention of the following suffices.

I wish to express my gratitude to my project Supervisor, Mr. Ernest Akello for his guide throughout this project. His suggestions, positive criticisms and evaluations were helpful in making this study a success.

The University of Nairobi Library staff for their ever open arms and immeasurable encouragements which only served to keep me on the path.

My entire family, for always being there and constantly reminding me that the wisdom I possess is much more than my occasional worries.

I wish to thank those whom I have drawn some work from and apologize to those whose relevant work I might have missed.

Thank you all and God Bless you

## **DEDICATION**

I dedicate this work to my mum Cecilia Chepkok

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>LIST OF TABLES .....</b>	<b>vii</b>
<b>ABSTRACT.....</b>	<b>ix</b>
<b>ABBREVIATIONS AND ACRONYMS.....</b>	<b>x</b>
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 The Concept of Outsourcing.....	2
1.1.2 Operational Performance .....	3
1.1.3 Real Estate Sector in Kenya .....	4
1.2 Research problem.....	4
1.3 Research Objective.....	8
1.4 Value of the Study.....	9
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>10</b>
2.1 Introduction .....	10
2.2 Theoretical Literature Review.....	10
2.2.1 Transaction Cost Theory .....	10
2.2.2 Agency Theory .....	11
2.3 Outsourcing Practices Adopted In the Real Estate Sector .....	12
2.4 Operational Performance Measurement.....	14
2.5 Relationship between Outsourcing and Operational Performance .....	15
2.6 Empirical Literature Review .....	17
2.7 Conceptual Framework .....	20
2.8 Summary of Literature Review and Research Gaps <b>Error! Bookmark not defined.</b>	
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>21</b>
3.1 Introduction .....	21
3.2 Research Design.....	21
3.3 Population of the Study.....	22
3.4 Data Collection.....	22

3.5 Data Analysis .....	23
<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION .....</b>	<b>25</b>
4.1 Introduction .....	25
4.2 Response Rate .....	25
4.3 Demographic Characteristics .....	26
4.4 Outsourcing Practices.....	28
4.4.1 Financial Services Outsourcing .....	28
4.4.2 Administrative support Outsourcing .....	30
4.4.3 Logistics Outsourcing.....	32
4.4.4 Human resource outsourcing .....	33
4.5 Operational Performance.....	35
4.6 The Effect of Outsourcing on Operational Performance of Real Estate Firms in Nairobi, Kenya.....	36
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ...</b>	<b>42</b>
5.1 Introduction .....	42
5.2 Summary .....	42
5.3 Conclusion.....	44
5.4 Recommendations .....	44
5.5 Limitations of the Study .....	45
5.6 Suggestions For Further Research.....	46
<b>REFERENCES.....</b>	<b>47</b>
<b>APPENDICES .....</b>	<b>50</b>
Appendix I: Questionnaire .....	50
Appendix II: List of Real Estate Firms .....	54

## LIST OF TABLES

Table 3.1: The population .....	22
Table 4.2: Response rate .....	25
Table 4.3: Duration Worked in the Organization .....	26
Table 4.4: Duration Worked .....	27
Table 4.5: Number of employees .....	27
Table 4.6: Financial Services Outsourcing .....	29
Table 4.7: Administrative support Outsourcing .....	31
Table 4.8: Logistics Outsourcing .....	32
Table 4.9: Human resource outsourcing .....	34
Table 4.10: Operational Performance .....	35
Table 4.11 : Model Summary .....	36
Table 4.12: Analysis of Variance .....	36
Table 4.13 : Coefficients of Determination .....	37

## LIST OF FIGURES

Figure 2.1 : Conceptual Framework .....	20
---	----



## ABSTRACT

In the current dynamic era which is described by market volatility, cycle times, constant change cycle times and demand to reduce costs attached with the globalization trend has driven the rising need to outsource business operations. The return on asset of the user's firm can be improved by outsourcing. Firms are focusing more on their core processes while non-core processes are relegated to third party logistics companies. The purpose of this study was to find out the effect of outsourcing practices on the operational performance of real estate firms in Kenya. The specific objectives of the study were; to determine the extent to which different outsourcing practices have been adopted by real estate firms and to establish the relationship between outsourcing and operational performance of real estate firms. This study was guided by the transaction costs theory and the agency theory. The study was a census approach since all the elements were considered. Primary data was collected from the respondents by use of self-administered structured questionnaires containing both open and closed ended questions. The questionnaires were administered through the drop and pick method. The collected data was edited and coded and fed into the SPSS computer package to generate both descriptive and inferential statistics. On the extent to which the different outsourcing practices had been adopted, the study found that logistics outsourcing, human resource outsourcing and administrative support outsourcing had largely been adopted as shown by overall means of 4.019, 4.019 and 3.844 respectively while the financial services function had moderately been outsourced as shown by 3.695. The inferential statistics was undertaken by performing a regression analysis on the dependent variables (speed, cost and quality) against the independent variables (financial services outsourcing, administrative support outsourcing, logistics outsourcing and human resource outsourcing). The study found that outsourcing decision significantly influences the operational performance of real estate firms. This was evidenced by p values of 0.000 at 95% level of confidence for all the three regressions. This shows that the model adopted for this study was significant and that outsourcing was significant in predicting the operational performance of real estate firms. It was concluded from the study that the attainment of operational performance is not a solely independent process but entails the coordination of different factors such as administrative support, financial services outsourcing, logistics outsourcing and human resource outsourcing. The study therefore recommends that real estate firms and other organizations must adopt different outsourcing practices in order to gain operational efficiency but be on the lookout on the challenges that come with outsourcing.

## **ABBREVIATIONS AND ACRONYMS**

<b>GDP</b>	Gross Domestic Product
<b>HR</b>	Human Resource
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>KPDA</b>	Kenya Property Development Association
<b>OP</b>	Operational Performance
<b>OPM</b>	Operations Performance Management
<b>PEV</b>	Post Election Violence
<b>SME</b>	Small and Medium Sized Enterprises
<b>SPSS</b>	Statistical Packages for Social Sciences
<b>TGL</b>	Thika Greens Limited

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Outsourcing in recent times has become a common business practice in many organizations. The concept has advanced into various models practiced across nations. The key reason is usually to save money and time. Recently, businesses have been faced with challenges such as reducing their operation costs which is attainable through outsourcing. Outsourcing enables firms to utilize third party service providers and its expertise to undertake non-core endeavors and focus on the core ones.

Growth of organizational outsourcing in the real estate sector has imposed the need to assess companies' in house capabilities required in the management of their supply chains as they cope with competition (Ikediashi et. al, 2014). Competition is now relying on services outsourced for cost reduction, quick access to new innovations and quality improvement. This creates necessity for firms to develop supplier network that learn with time, seek quality improvement and are willing to prosper together with their parent company (Lamber & Enz, 2012). According to Ikediashi (2014) the outsourcing concept remains vague and under-studies in the real estate sector, which makes it difficult to access the benefits and challenges involved in outsourcing.

This study was anchored on the transaction costs economic theory and supported by the agency theory. According to the transaction costs theory, organizations are considered to be economical players utilizing the most efficient mechanisms for dealings (Williamson, 1981). The theory argues that the organization incurs costs such as search costs and inventory holding expenses when utilizing a market. The organization can avoid these costs by making their own input which allows it to gain economies of scale. On the other

hand, the agency theory is majorly concerned with the challenges that arise during outsourcing relationship between the principal and the agent (Lasser& Kerr (1996). The procuring organisation needs to embrace management efforts that will help reduce the impact of a negative event that may be harmful to the organization.

### **1.1.1 The Concept of Outsourcing**

The concept of outsourcing has been in existence since the 1980s. This was part of the response to the diverse recession where organizations required measures to bring down costs and maximize profit. Sharpe (2011) defines outsourcing as a fundamental business strategy whereby establishments hire the services of external entities to perform certain jobs on their behalf.

Patnaik (2007) describes outsourcing as the delegation of work to external firms or individuals either through a contract or not. The work can be done by brick and mortar or by freelancers operating from their homes or in the field.

According to Daugherty (2016), in order for an outsourcing strategy to function effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes and global sourcing business capabilities. In addition, they suggested that firms that have not raised their sourcing approach to global strategic level might already be behind in terms of quality, technology, delivery, performance and customer service. The advantages of

outsourcing include improved financial performance, reduction in manufacturing costs and investment in plant and equipment, quick responses to environmental changes, increased managerial attention and resource allocation to tasks performed best by the organization and availability of higher quality goods in future (Didia, 2015).

When production is outsourced, the company counts on an external provider for perform the production; it also transfers knowledge to that supplier (Rasheed & Gilley , 2000).

This contributes to a loss of control over the outsourced activity and a risk of opportunistic behaviour from the supplier (Fredriksson et al., 2010). Due to this, an organization needs to consider that control over outsourced activities can be exerted only through a legal agreement. The organization could adopt outsourcing practices such as financial service outsourcing, logistics outsourcing, administration functions outsourcing and human resource outsourcing in order to enhance operational performance.

### **1.1.2 Operational Performance**

Operational performance is the performance of a firm measured against prescribed indicators of environmental responsibility, efficiency and effectiveness such as productivity, cycle time environmental and regulatory compliance and waste reduction (O'Brien, 2009). Operational performance can be measured by the following dimensions customer satisfaction, employee satisfaction, revenue generation, productivity, quality cost, speed, dependability, operational flexibility and gross profit. These measures are developed to monitor and maintain operational control especially in the current business

competitive environment. Operational performance determines organizational performance. Firm performance is the ability of the firm to fulfill its mission through governance, dedication and excellence to achieving its overall objectives and goals.

The operations in-manufacturing firms should be efficient and effective if it is to achieve the organizational goals and objectives. Effectiveness is producing the intended or expected results that is, doing the right thing such as extent customer requirements are met. Efficiency is undertaking tasks in the best possible approach with the least waste of time and effort that is, doing things right such as how well firms resources are utilized. In this study, capacity utilization, sales volume, quality of service and efficiency of operations will be used to measure operational performance of sugar manufacturing firms in Kenya. Capacity utilization is the association between actual output produced by the installed machinery and equipment compared with the anticipated output that would have been produced upon full utilization

### **1.1.3 Real Estate Sector in Kenya**

In the past decade, Kenyan real estate has immensely grown. The real estate growth survived the 2008 PEV and global economic menace which impeded other sectors such as agriculture and tourism (Hass Property Index, 2013). Kenya's market has been awesome more so for foreign investors due to high profit margins of 20 to 30% which Nathan (2012) opines that it is impossible to earn such high returns even in the USA or European markets. Large foreign real estate companies have invested lots of money in luxury properties targeting wealthy Kenyans, diplomats and expatriates.

The Hass Property Index (2013) shows that the upper end of market is very saturated and which might cause sustainable piece growth in the future. Some of the big projects include Thika Greens Limited (TGL) stands on 1,135 acres of land in Thika, the \$650 million golf estate exhibiting 4,000 housing units when finished. The Migaa project lies closely which sits on a 774 acres land in Kiambu and is being developed by Home Afrika. There has been a massive rise in the land prices in areas surrounding this region which is attributed to the potential accrued to this developments.

Nairobi being a large city is a home of many expatriate communities due to the increase in the number of multinational companies that have set up their continental head quarters. The impressive returns of the real estate sector have attracted many investors to the industry resulting to an increase in the number of real estate firms setting up in Nairobi. These firms range from small local companies whose interest is managing the existing properties and large companies who have chosen Nairobi as the base venture in Nairobi. Some of the real estate firms include Knight Frank, Villacare, Lordship Africa, Hass Consult, Cytton Investments, Ryden International, Buyrent Kenya, Home Africa among others. Real estate players estimate that future demand for real estate investment will be driven by middle and low income earners. The government is also encouraging the low cost housing by offering tax incentives to developers.

The real estate sector uses the following parameters to carry out measurements of performance such as money, output/input relationships, customer focus, adaptation of change and innovation. Within the operations zone, the performance measures adopted include productivity measures, inventory measures, quality measures, preventive maintenance, lead-time measures, utilization and performance to schedule. The specific

measures include: variances as measured as standard absorbed cost versus real expenses. Safety: measured on some common scale such as several hours without an accident and cost of quality: measured as budgeted versus actual . Period expenses: measured as budgeted versus actual expenses. Inventory turnover: measured as actual versus budgeted turnover and Profit contribution: measured in dollars or some common scale (KNBS, 2004).

## **1.2 Research problem**

Currently, market dynamics including effects of globalization and technology have made competition tougher than before. Firms are therefore facing pressure to change and fit in the new business environments by creating unique value propositions at sustainable costs. Contrastingly, outsourcing has remained a sustainable solution in business practice. Firms are focusing more on their core processes while non-core processes are relegated to third party logistics companies. Using the perspectives offered by Kyusya (2015) and Tuzuka (2011) on outsourced logistics and firm operational performance, it is evident that outsourced logistic is imperative to firms. Businesses, by outsourcing logistics, gain access to better technology, new markets, reduce costs are flexible, increase productivity and allow for effective allocation of limited resources.

In Kenya, there is the observation that there is an increasing trend in the rate of corporate outsourcing. One of the sectors witnessing the largest outsourcing arrangements is the real estate sector. Within the vibrant sector, several companies have engaged in outsourcing. Given the status of the industry as one of the most competitive, most players in the industry have sought to gain competitive advantage by exploiting some of the benefits that come with outsourcing. The real estate developers outsource a wide range of



services such as site management, material supplies, transport, logistics management, housekeeping, decoration and interior designs and repairs and maintenance which subsequently enhances the firms' operational performance. The choice of outsourced activities must be aligned with the objectives of the firm while taking advantage of external opportunities that results from outsourcing (Lam, 2012).

Several studies have been undertaken on outsourcing both globally and locally. Tenkorang (2015) delved into the effect of outsourcing on the operational performance of Telecom firms in Ghana. The study found that outsourcing strengthens the credibility and image of the firms through associating with superior suppliers thus improving operating performance. On the other hand, Mogere (2015) also studied the impact of service outsourcing on the supply chain performance in cement manufacturing firms in Kenya and noted that cleaning outsourcing, catering outsourcing, customer care outsourcing , security guard outsourcing and transport and logistics outsourcing impacted supply chain performance in the industry. Additionally, Nyameboeame and Abunaker (2017) in their research while studying the relationship between outsourcing and organizational performance with focus to oil companies in Ghana concluded that outsourcing of services leads to reduced cost, access to innovation and increased know how which enhances service delivery and allows company to specialize in their core functions.

Locally, Mwichigi 2015 did an investigation on the relationship between outsourcing and operational performance of Kenya's Energy sector; a case of Kenya power and the findings indicated that there has been increased profitability over the years which was linked to outsourcing. Similarly, Abdirahman (2017) studied service outsourcing and its effect on performance of public universities. Although his study expressed this

relationship in terms of the activities outsourced and well as seeking to identify challenges of outsourcing, the study was limited to public universities as well as general performance as opposed to operational performance. On the other hand, Obat (2018) examined outsourcing and supply chain performance of property management firms in Nairobi. The findings revealed that most services such as security, cleaning and maintenance and repairs were outsourced by property management forms which improved reliability and enhanced responsiveness of these firms.

From the above review, it is evident that most studies have emphasized outsourcing and operational performance in other industries which is understandably different from the real estate sector. Furthermore, the documented studies have measured sourcing practices against t other parameter such as supply chain performance and not operational performance. As a result, this study sought to explore and fill this gap by responding to the research question; what is the effect of outsourcing on the operational performance of real estate firms in Nairobi, Kenya?

### **1.3 Research Objective**

The general objective of the study was to establish the effect outsourcing on the operational performance of the real estate firms in Nairobi, Kenya.

The study's specific objectives were;

- i. To determine the extent to which service outsourcing has been implemented by real estate firms in Nairobi, Kenya.
- ii. To establish the effect of outsourcing on the operational performance of the real estate firms in Nairobi, Kenya.

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

The study's findings may assist the organizations in effective assessment of their strategies so as to attain their objectives and to realize their mission, vision and core values. Management of real estate developers in Nairobi County can draw applicable lessons from this report, while the management of other firms may find this report useful in articulating the appropriateness in which they execute their strategy evaluation to spur performance.

The study's results will provide understanding into key outsourcing approaches influencing operational performance in real estate developers in Nairobi County. This will allow the management to learn how to improve to boost their service delivery capabilities. The research may provide the real estate firms with new educational resources to improve their strategies insights on their organization's performance and effectiveness. Real estate firms' stakeholders may have vital information on what works and what does not work in strategy evaluation.

The study's results research may bridge the gap on knowledge on outsourcing specifically in real estate firms and generally firms in the other sectors of the economy. It will build up on existing literature concerning outsourcing in particular operational performance.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The chapter constitutes both the empirical and theoretical literature pertaining outsourcing and operational performance in Kenya's real estate sector. The chapter discusses the available theoretical frameworks indicating their proposition and implication to the survey. The empirical literature is also reviewed with focus to the methodology and findings obtained in the studies conducted. The chapter also examines the various the various outsourcing practices that have been adopted in the real estate sector. The chapter concludes with an overview of the conceptual framework and a summary of the literature reviewed.

### **2.2 Theoretical Literature Review**

The practice of outsourcing entails a lot of activities that gives it a complex structure, this contributes to many managerial dilemmas. This has led to many theories that have been suggested to help professionals understand and manage the outsourcing process. The study was anchored on transaction cost theory and supported by the agency theory.

#### **2.2.1 Transaction Cost Theory**

The transaction cost theory was developed by Williamson (1981). According to the theory, organizations are considered to be economical players utilizing the most efficient mechanisms of dealings. This theory opines that when utilizing a market the organization experiences costs. Operational expenses such as search costs, inventory holding expenses as well as the charges of writing and enforcing an agreement. To avoid transaction costs, an organization can make their own input which also enables it to gain economies of

scale. However, as the firm grows in size, it will require increase in coordination from within the organization. (Grover et al 1996) Choosing to outsource will lead to increased transactional costs and more than likely a loss in economies of scale of the vendor while reducing the internal coordination costs at the same time. However, the external coordination costs that can be outsourced by the firm are likely to increase.

The increase or decrease on the cost will depend on the level of asset specificity. An organization will experience high asset specificity when its products and services are highly customized and not easily transferable to alternative vendors (Williamson, 2000). Due to the uniqueness or distinctiveness the vendor will be unable to develop adequate economies of scale which implies higher costs which is prudent in such a scenario to develop capabilities from within the organization (McIvor, 2008). The transaction cost approach gives a good framework that helps organizations decide what processes they should outsource and which they should maintain and helps in success prediction of outsourcing in terms of financial benefits (Wang, 2002).

### **2.2.2 Agency Theory**

“Agency theory is majorly concerned with the challenges that arise during the outsourcing relationship between the principal and the agent (Laser & Kerr, 1996). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth

maximal effort (Eisenhardt, 1989). The problems of adverse selection and moral hazard mean that fixed wage contracts are not always the optimal way to organize relationships between principals and agents (Jensen and Meckling, 1976)”

The procuring organization needs to embrace management efforts especially when supply ambiguity becomes a big factor. This will help reduce the impact of a negative event that may be harmful to the organization. The model suggests that the importance of carrying out continuous monitoring and application of all efforts possible towards strengthening the connections amongst two corporations (Barney & Hersterly, 1996). This is important to help counter any problems that may arise during the relationship. The agency theory is a key guide used by establishments as they prepare to outsource. It is useful especially when the organization is evaluating all the possible partners for the outsourcing process, this is because it helps to choose the relationship style it will apply.

### **2.3 Outsourcing Practices Adopted In the Real Estate Sector**

This section outlines the range of outsourcing approaches adopted so as to enhance the operational performance of the real estate firms. The study will analyze four main type of outsourcing namely, financial service outsourcing, administration functions outsourcing, logistics outsourcing and human resource outsourcing.

The outsourcing of administrative functions has increased in the past years and this practice continuous to be adopted. Organizations are increasingly becoming sophisticated in how they select service providers, spread liability risks and negotiate contracts (Mark, 2012). Establishments outsource administrative functions for several reasons, the most

common ones being to attain cost savings, increase service quality, obtain outside expertise, free up internal personnel to deal with strategic as opposed to administrative concerns.

Companies typically administrative functions that are routine in nature, easily standardized, and do not relate the firm's core business. These functions include, payroll, IT, security, employee benefits administration, call centers and claims processing. Functions which are not as suitable to outsourcing include strategic planning and employee relations (Stacey, 2014).

Logistics outsourcing has gained increased application given different logistical functions, complexity of immense handling the huge quantities of inventory storing or goods, the huge resource investments needed for these processes (Elewar & Bourlakis , 2011). Thus the higher this impact together with increasing need for customer service and effectively reduce the operational costs has prompted my firms to adop logistics outsourcing. (Skjoett, 2007). The continuous increase in the uptake of logistics outsourcing depend on the realized benefits it could it could accrue to improve the supply chain performance of the firm (Rao &Young, 2013).

Organizations around the globe are actively engaged in outsourcing all or part of the HR function. Significant technological advancements have created a situation where most

jobs can be done anywhere across the globe. Generally, HR outsourcing means having a third-party to vendor administer an HR function that would otherwise be executed internally. A vendor will contract to perform a specific HR function thus delivering predetermined services at a specified cost (Cook and Gildner, 2006).

## **2.4 Operational Performance Measurement**

Operational performance measurements are the key metrics which are used to measure the performance of a company and are generally related to satisfying customer requirements. Different organizations have different metrics of measuring however there are common metrics across the entire business environment that are applied. They include: Cost, Quality, Flexibility, Speed and Dependability. Generally keeping a high index or score on all the above indicates that the organization's operational performance is good. Levitt (1983) states that the main purpose of a business is to create and keep customers satisfied. Measuring and analyzing customer satisfaction can help a business gain insight in its overall performance. The study will measure the operational performance using three main metrics namely; cost, speed and quality.

Every organization desires to keep their costs low. A usually measure of cost is productivity. Productivity plays a critical role in ensuring long term competitiveness and profitability for an organization. It is basically a measure of how effectively and efficiently an organization uses its resources to generate output. Productivity helps to determine if the business is progressing well and also provides vital information as to whether the resources are being used well. All in all it provides details on whether the



business is performing as expected or not (Spring Singapore, 2011). Every organization strives to keep their costs in order to reinvest the additional resources that would have been wasted in other activities that are generate revenues for the firm. Speed means supplying products and services quickly and hence increasing organization availability. Internally, doing things fast eliminates queues, reduces inventories, and reduces risk of obsolescence (Politis, 2002).

The quality practices of an organization are defined as actions adopted by a companies to ensure the provision of a high-quality service or product. The American Society for Quality, (2013) state that the best quality management organizational structures should include quality management principles, practices and techniques that will reinenforce each other to lead to maximization of organizational results (Dean and Bowen, 1994). Examples of these practices include: Customer focus, Leadership, Strategic planning Management, HR Management (incentive and recognition), Employee involvement and commitment, Process Management, Supply Chain Management, Continuous Improvement and Innovation as well as Quality Management Practices (Saraiva et al, 2014).

Speed means supplying products and services quickly and hence increasing organization availability. Internally, doing things fast eliminates queues, reduces inventories, and reduces risk of obsolescence (Politis, 2002).

## **2.5 Relationship between Outsourcing and Operational Performance**

Wellenburg &Knemeyer (2010) in their normative literature state that outsourcing plays a fundamental role in boosting the performance of the company claiming that such a

positive association is due to the fact that outsourcing enables a firm to focus on its core activities. It is much easier for suppliers specializing in different processes to achieve efficiencies as they are able to apply economies of scale and through their experience they are able to have more understanding. Organizations will benefit by utilizing the skills of the more proficient suppliers, this is because they can choose to outsource some business activities that are critical and focus on building internal core abilities (McIvor, 2008). Advantages are the positive effects that follow and are anticipated by companies from the decision of outsourcing.

The most acknowledged paybacks of outsourcing are to reduced costs and increase efficiency (Parsa & Lankford, 1999). Suppliers commonly work with diverse customers and by doing so they can leverage on economies of scale lower implications for outsourcing organizations. Because of the consolidation, outsourcing organizations can either reduce costs or offer their products to customers at a more competitive prices so as to increase profits (Holweg et al., 2011).

“Outsourcing non-core activities possesses the theoretical benefit of getting them performed by a supplier in a more effective way and devoid of the need of investing capital to continuously improve them internally (Jiang et al., 2007). The outsourced activity becomes the core activity for the supplier, who is able to carry it out quickly,

providing a short lead time to avail the product in the market (Jian et al., 2007). Companies that outsource production are thereby able to access resources that are not available in their organizations such as special technology and machineries, which in turn contribute to more flexibility (Dabhilkar, 2011). Besides, the experienced workforce enable any type of product customization (Mohiuddin & Su, 2013a), which enables the outsourcing company to adjust products or services according with the dynamics of the changing market.”

## **2.6 Empirical Literature Review**

Kotabe and Mol (2009) studied how a firm's extent of outsourcing across all activities affects the financial performance among manufacturing firms in Netherlands. The study argues that there is an optimal level of outsourcing, where firms integrate some activities while outsourcing others, and that deviations lower performance in a curvilinear fashion. The findings revealed that that the steepness of the curve increases under conditions of high uncertainty. The study further shows the magnitude of the uncertainty effect on performance outcomes through a post scenario analysis.

Zhan and Muhammad (2013) investigated the association between non-core and core activities outsourcing and found a positive association between outsourcing of non-core activities have a positive influence on the performance of the firm. The results also shows

that outsourcing boosts the social, economic and strategic performances of manufacturing companies that suitably adjust to the dynamic environment

Gilley, Rasheed and Greer (2002) explored the nexus between outsourcing of human resource (HR) activities not forgetting firm performance and shed additional light on the association between outsourcing and company performance by ascertaining HR outsourcing practices and their impact on financial and stakeholder performance measures with manufacturing firms as the context. The results cited certain human resource outsourcing practices for instance training and payroll outsourcing as highly crucial in enhancing the firm's performance.

Mwichigi (2015), investigated the association between the key outsourced services, namely finance outsourcing, administrative support outsourcing, technical outsourcing and resourcing outsourcing on operational performance Kenyan Companies in the Energy Sector. Inferential and descriptive statistics was used to analyze the data. The survey concludes that there exists a positive and significant association between financial, resourcing, technical and administration, outsourcing services and operational performance.

On the Other hand Muriithi (2014), in his study on and operational performance found that outsourcing explains a small percentage of changes in operational performance implying that customer support outsourcing practices , new product outsourcing practices, information technology outsourcing practices did not significantly affect operational performance. From the reviewed studies, it is evident that findings the findings on the effect of outsourcing on the operational performance have been contradictory. Moreover, no known study has delved into the effect of outsourcing on the operational performance of the Kenyan Real Estate Sector which is the gap that the proposed study seeks to breach.

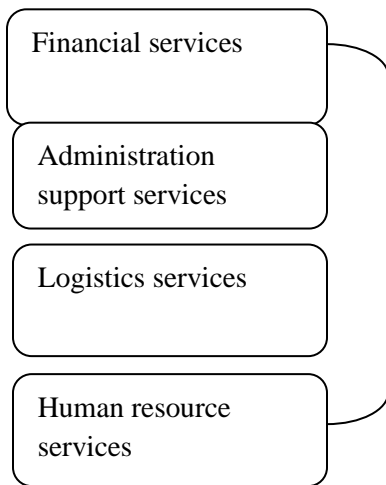
Omwange (2012) did a study on outsourcing and operational performance in Diversey Eastern and Central Africa LTD. The study employed a case study approach and targeted the top management officials at the company's headquarters in Nairobi. The study showed that the organization had outsourced to a large extent, the decision to outsource was driven by a desire to reduce costs. In as much as outsourcing has led to reduced costs, some performance indicators such as flexibility, innovations, quality and customer satisfaction had been affected negatively. The study concludes that outsourcing is beneficial to organizations, however it is important for organizations to weigh the benefits that come out of the outsourcing decision.

## 2.7 Conceptual Framework

The independent variables of the study will be logistics outsourcing, administration support outsourcing, human resource outsourcing and financial services outsourcing while the dependent variable is operational performance.

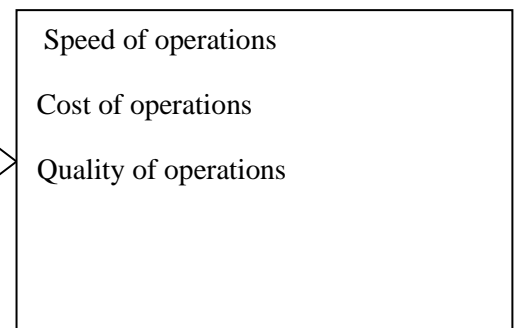
### Independent variable

#### Outsourcing



### Dependent Variable

#### Operational performance



**Figure 2.1 : Conceptual Framework**

**Source: Researcher (2019)**

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

To establish the impact of outsourcing on the operational performance of real estate firms in Kenya, a research methodology is necessary since it outlines how the research was carried out. The chapter has four sections which include; research design, area of study, population of the study, sampling technique, sample size, data collection and data analysis.

### **3.2 Research Design**

To choose a research design, one has to consider the kind of data required, where and how it is collected and how the data is analyzed and interpreted. The study employed a descriptive survey design whereby the descriptive perspective is classification as per the analysis method and pertains using variables to understand the phenomenon under study but does not explain why it is so. The descriptive research design is deemed appropriate for the study since the researcher seeks to identify the characteristics, trends, correlations and categories between outsourcing and operational performance of real estate firms in Kenya.

Khan (2008) notes that a descriptive research design is employed where the researcher wants to find out the state of affairs as they exist. Cooper & Schindler (2008) also point out that a research design that is descriptive gives a valid and accurate representation of the variables of the study and this becomes helpful when responding to the research

question. Kothari (2004) also notes that a survey design involves collection of data from a specific population to determine the state of the phenomenon under study according to one or more variables.

### 3.3 Population of the Study

A research should have a population onto which the study’s findings are generalized. Since the real estate sector is a wide field, the study population of the study was narrowed to constitute only the real estate firms registered with Kenya developers Association who were 78 as at March 2019. The study used a census approach meaning that all the 78 real estate firms were studied as shown in 3.1

**Table 3.1: The population**

<b>Classification of Real estate firms</b>	<b>Population</b>
Retail	12
Office	11
Residential	20
Industrial	9
Special Properties	8
The NGO’s sector	4
Land sector	14
<b>TOTAL</b>	<b>78</b>

**Source: KPDA, 2019**

### 3.4 Data Collection

The study purely relied on primary data Sources. The primary data was obtained from the real estate firms in Nairobi through use of structured questions comprising both open and closed ended questions. The closed ended questions were used to test the rating of the various responses and which helped to reduce similar responses therefore more varies responses was attained. Open-ended questions on the other hand were used to obtain additional information the close-ended questions did not capture. The questionnaire



comprised three sections. Section A covered demographic information of the respondents and their respective firms, Section B included questions on the different sourcing practices while section C constituted questions on operational performance. The questionnaire were administered through the drop and pick later method. The questionnaires were issued to any top management officials in the human resource, finance, logistics and administration departments.

### **3.5 Data Analysis**

The questionnaires were counted, inspected and sorted for completion and adequacy. Unique codes were assigned to every question and score. The data was then keyed into the computer for summarizing and analysis to determine frequency of emerging themes. The study's descriptive elements were analyzed using descriptive statistics in form of frequencies and percentages. Regression analysis was carried out by the researcher in order to establish effect of outsourcing on the operational performance of real estate sector. Multiple linier regression analysis was utilized to determine the relationship between the dependent variables (Speed, Cost and Quality) and the independent variables. The findings were presented using frequencies, percentage distributions and cross tabulations.

The regression models utilized was as depicted below;

$$Y_1, Y_2, Y_3 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

$Y_1$  - Speed,  $Y_2$ - Cost,  $Y_3$ - Quality

$\beta_0$  - Regression constant

$\beta_1, \beta_2, \beta_3, \beta_4$ - beta coefficients for independent variables

$X_1$  = Financial outsourcing

$X_2$  = Administration support outsourcing

$X_3$  = Logistics Outsourcing

$X_4$  = Human resource outsourcing

$\varepsilon$  -Error term assumed to be normally distributed

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The research looked into outsourcing and operational performance of real estate firms in Nairobi, Kenya. This section therefore presents findings based on the proposed methodology and procedures. The chapter comprised of the following sections; response rate, background information, outsourcing practices, operational performance, regression analysis and discussion of the findings. The findings are presented in terms of tables and figures

### **4.2 Response Rate**

For the study, out of the 78 questionnaires administered to the respondents, 55 were fully filled and returned. The overall response rate for the study was as presented in Table 4.2

**Table 4.2: Response rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Returned	55	70.5%
Unreturned	23	29.5%
<b>Total</b>	<b>78</b>	<b>100%</b>

**Source: Researchers (2019)**

The results in Table 4.2 indicate a response rate of 70.5 %. Thus, the response rate was found viable as per Mugenda and Mugenda (2008) that a 70% response rate and above is good for analysis and making inferences.

### 4.3 Demographic Characteristics

The researcher sought to establish basic characteristics of the respondents such the duration worked for the organization, duration in which the organization has been in existence and the number of employees working for the organization.

To explore these factors, an analysis of frequencies was undertaken after which the output was presented as shown below.

#### 4.3.1 Duration worked in the Organization

The research resolved to ascertain the duration to which the various respondents had worked for their organizations. The findings were as shown in Table 4.3

**Table 4.3: Duration Worked in the Organization**

	<b>Frequency</b>	<b>Percent</b>
1-5 years	11	20.0
5- 10 years	25	46.7
10-15 years	20	26.7
Over 15 years	4	6.7
<b>Total</b>	<b>55</b>	<b>100.0</b>

**Source: Researcher (2019)**

The responses as shown in Table 4.3 show that the majority 46.7% had worked for the organization for a period ranging between 5-10 years followed by 26.7% 10-15 years then, 20% between 1-5 years while 6.7% had worked for over 15 years. It can be deduced from the findings that majority of the employees had been in the organization for a reasonable number of years and thus exhibited adequate knowledge on the services

outsourced by the firms and therefore the information provided was considered to be reliable.

#### 4.3.2 Duration in Operation

The research sought to establish the duration to which the respondents had been working for the firms. The results were as shown in Table 4.4

**Table 4.4: Duration Worked**

<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
11-20 years	29	53.3
Over 20 years	15	26.7
Below 10 years	11	20.0
<b>Total</b>	<b>55</b>	<b>100.0</b>

**Source: Researcher (2019)**

The findings revealed that 53.3% of the real estate firms had been in operation for 11-20 years, 26.7 for over 20 years while 20% had been running for below 20 years. It can be said that majority of the firms had been in the industry for a considerable duration thus understood well the contribution of outsourcing in boosting the operational performance.

#### 4.3.3 Number of employees

In a bid to determine the size of the firms, the respondents were asked to indicate the number of employees working for the company and the findings were as shown in Table 4.5

**Table 4.5: Number of employees**

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percent</b>
50-100	13	23.3
101-200	18	33.3
Over 200	17	30.0
Less than 50	7	13.3
<b>Total</b>	<b>55</b>	<b>100.0</b>

**Source: Researcher (2019)**

The results show that 33.3% had between 101-200 employees, 30% over 200 employees, 23.3% 50-100 employees while 13.3% had less than 50 employees. It can be concluded that there were adequate staff in firms to execute different tasks and the firms were large in size.

#### **4.4 Outsourcing Practices**

In order to establish the extent to which outsourcing had been adopted by real estate firms, the respondents were asked to indicate the degree to which the different outsourcing practices had been adopted in their organizations. The responses were rated using a five point Likert- scale of 1-Very little extent, 2-Little extent, 3- Moderate extent, 4-Large extent, 5- Very large extent.

##### **4.4.1 Financial Services Outsourcing**

Different statements on financial services outsourcing were presented to the respondents to ascertain the extent to which financial services had been leased to third party companies.

**Table 4.6: Financial Services Outsourcing**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Our organization engages external accountants to assist in computing tax returns	55	4.0244	.87999
Our organization engages external accountants to assist in computing tax returns	55	4.0000	.80623
The firm engages qualified accountants in putting in place financial and operational costs	55	3.8537	.72667
Our organization has contracted highly qualified auditors	55	3.7073	.90122
Our organization constantly engages qualified accountants for audit purposes	55	3.5854	.83593
Our organization engages external accountants to assist in computing tax returns	55	3.0000	1.39642
<b>Average</b>	<b>55</b>	<b>3.6951</b>	<b>0.92441</b>

According to the findings, most attributes were rated to a large extent while some were rated to a moderate extent. The statement organization engages external accountants to assist in computing tax returns produced the highest mean ( $M=4.024$ ,  $SD=0.879$ ). This implies that external accountants are hired by most firms for tax computation purposes. On the other hand, outsourcing has enabled the firm to be more effective in auditing produced ( $M=4.000$ ,  $SD=0.806$ ) showing that hiring the respondents agree to a large extent that the firm hired external auditors for financial accounting purposes. Moreover, firm was found to engage qualified accountants in putting in place financial and

operational costs (M =3.854, SD =0.726) and thus most respondents agree with the statement and our organization has contracted highly qualified auditors for audit purposes (M= 3.7073, SD= 0.901). (M =3.585, SD= 0.836 and (M=3.000 SD=1.396) respectively implying that the respondents were not fully certain whether third party companies had been outsourced in the mentioned areas.

An overall mean of 3.6951 obtained on all the attributes of outsourcing of financial services. This is because maintaining in house accounting team is quite costly and time consuming and the organization does not want to take chances on the probable consequences that could arise due to keeping a false accounting system. The findings concur with Klass(2003) who purports that financial outsourcing provides the business with flexible solutions that offers a chance to solve complex financial problems, meet their budgets and specific requirements.

#### **4.4.2 Administrative support Outsourcing**

The research explored the degree to which administrative services had been outsourced. The responses were rated using a five point Likert- scale. The findings were as shown in Table 4.7



**Table 4.7: Administrative support Outsourcing**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The organization outsources all the administrative functions that are routine in nature	55	3.7561	.88827
Outsourcing has enabled the organization to use modern technology in discharging administrative duties	55	3.7073	1.20921
Administration costs have reduced since our organization started outsourcing administrative services	55	3.6341	1.26008
<b>Average</b>	<b>55</b>	<b>3.8439</b>	<b>1.00709</b>

The majority of the respondents construed that due to financial services outsourcing, our organization is able to concentrate on its core businesses and thus attained improved customer satisfaction (M=4.122, SD=0.87) followed by in our establishment administrative services have been leased to third party companies (M=4.0123, SD=0.806) then the organization outsources all the administrative functions that are routine in nature (M=3.756, SD= 0.888) preceded by outsourcing has enabled the organization to use modern technology in discharging administrative duties (M =3.707, SD=1.209) while the respondents to some extent that the administration costs have reduced since our organization started outsourcing administrative services (M =03.634, SD =1.260). The average mean was 3.844 implying that administrative outsourcing has been adopted to a large extent by real estate firms.

The above findings show that administrative support had been widely outsourced as demonstrated by an aggregate mean of 3.843. This is because as organizations grow, the operations become more sophisticated which demands them to select third parties in order to spread their liability risks. These are in line with Mark (2012) who states that administrative functions are outsourced so as to attain cost savings, increase service quality, free up internal personnel to focus on strategic and obtain outside expertise as opposed to administrative or peripheral, concerns.

#### 4.4.3 Logistics Outsourcing

Further, the survey sought to establish the extent to which the logistics function had been outsourced. The responses were rated using a five point Likert- scale. The findings were as shown in Table 4.8

**Table 4.8: Logistics Outsourcing**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Warehouse management	55	4.482	1.127
Material handling and Management	55	4.317	.849
Transportation Management	55	4.214	1.071
Information management	55	3.980	1.173
Standardization of procedures	55	3.658	1.109
Information management	55	3.465	0.912
<b>Average</b>	<b>55</b>	<b>4.019</b>	<b>1.04</b>

The results as depicted in Table 4.8 shows that most of the logistics functions in the organization were largely outsourced as evidenced by a grand mean of 4.019. Precisely, the means and standard deviation for each individual factor outsourced was; warehouse

management (M= 4.482, SD=1.127), material handling and management (M= 4.482, SD=1.127), transportation management (M= 4.214, SD=1.071), information management (M=3.980, SD =1.173), standardization of procedures (M=3.658, SD =1.109), information management (M=3.465, SD =0.912). The attributes that attained means of above 3.5 had been outsourced to a large extent while those that fell below 3.5 had been partially outsourced. The overall standard deviation of 1.04 shows that the responses were dispersed around the mean response. The overall standard deviation of 4.019 alludes that the logistics function had been widely outsourced so as to mitigate the challenges that come with the inherent handling of huge commodities and the complexity of the supply chain.

#### **4.4.4 Human resource outsourcing**

The study also sought to establish the extent to which the human resource function had been outsourced by the firm.

**Table 4.9: Human resource outsourcing**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Our organization engages external accountants to assist in computing tax returns	55	4.0244	.87999
Our organization engages external accountants to assist in computing tax returns	55	4.0000	.80623
The firm engages qualified accountants in putting in place financial and operational costs	55	3.8537	.72667
Our organization has contracted highly qualified auditors	55	3.7073	.90122
Our organization constantly engages qualified accountants for audit purposes	55	3.5854	.83593
Our organization engages external accountants to assist in computing tax returns	55	3.0000	1.39642
<b>Average</b>	<b>55</b>	<b>3.6951</b>	<b>0.92441</b>

The standard deviation of 0.832 implies that the responses were clustered around the mean response. Finally, the findings alluded that the human resource function had largely been delegated to third party vendors. This was as illustrated by an aggregate mean of 4.073. Human resource practices such as recruitment were found to have been outsourced

so as to attain quality improvements, increase productivity and growth. These results were in line Elmuti (2003) HR outsourcing are frequently a response to an overwhelming demand for reduced costs, reduction in overheads , quality improvement and focus on core competencies.

#### **4.5 Operational Performance**

The study sought to establish the extent to which operational performance had been achieved by the real estate firms with respect to speed, cost and quality. The responses were rated using a five point Likert of 1- Strongly Disagree, 2-Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree. The study’s findings were as shown in Table 4.10;

**Table 4.10 : Operational Performance**

	<b>N</b>	<b>Mean</b>	<b>Standard deviation</b>
<b>Speed</b>	55	3.917	1.028
<b>Cost</b>	55	3.844	0.889
<b>Quality</b>	55	3.783	0.917
<b>Average</b>	<b>55</b>	<b>3.848</b>	<b>0.945</b>

From the findings shown in Table 4.10 , speed attained a mean of 3.917 and standard deviation of 1.028. Likewise, cost was rated to a large extent as evidenced by a mean of 3.844 and standard deviation of 0.899 which quality came third with mean of 3.783 and 0.917standard deviation. The average mean on was 3.848 alluding that on average, the respondents agree that operational performance had been attained by the firms

## 4.6 The Effect of Outsourcing on Operational Performance of Real Estate Firms in Nairobi, Kenya

The study used regression analysis to examine the association between the four independent variables with the dependent variable. The independent variables were financial services outsourcing, administrative support outsourcing, logistics outsourcing and human resource outsourcing while operational performance as measured by speed, cost and quality was the dependent variable..

### 4.6.1 Relationship between Outsourcing Practices and Speed

**Table 4.11 : Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.782 <sup>a</sup>	.611	.580	.49872

a. Predictors: (Constant), financial services outsourcing , administrative support outsourcing, logistics outsourcing, human resource outsourcing

The R-square value in the model was 0.611 meaning 61.1% of the variation in speed can be predicted by outsourcing while the other 38.9 was attributed to other factors not factored in for the study. The R square value of 61.1 further implies that model was good for analysis and thus the findings could be inferred for the entire population.

**Table 4.12: Analysis of Variance**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19.564	4	4.891	19.664	.000 <sup>b</sup>
Residual	12.436	50	.249		
Total	32.000	54			

a. Dependent Variable: Speed

b. Predictors: (Constant), financial services outsourcing , administrative support outsourcing, logistics outsourcing, human resource outsourcing

Further analysis of the model provided the ANOVA test indicating a p-value of 0.000 confirming that the regression model is statistically significant ( $p < 0.05$ ). The F calculated value of 19.664 which was more than the F critical value of 2.56 indicating that the model was statistically significant. The study thus concludes that service outsourcing have an influence on operational performance real estate firms in Nairobi City County.

**Table 4.13 : Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.066	.684		3.019	.005
Financial services outsourcing	.277	.075	.386	3.692	.001
Administrative support outsourcing	.288	.101	.268	2.842	.006
Logistics outsourcing	.430	.150	.280	2.866	.006
Human resource outsourcing	.132	.074	.177	1.783	.081

a. Dependent Variable: Speed

The coefficients table shows the individual effect of each independent variable on the dependent variable. The constant value of 2.066 shows the level of speed that would be attained by real estate firms even without outsourcing. The coefficients table show that financial services outsourcing, administrative outsourcing and logistics outsourcing have a positive and significant effect on operational performance of real estate firms ( $\beta = .277$ ,  $t = 3.692$ ,  $p = .001$ ), ( $\beta = .288$ ,  $t = 2.842$ ,  $p = .006$ ) and ( $\beta = .430$ ,  $t = 2.866$ ,  $p = .006$ ). Further test of significance for the three variables produced t calculated values of more than the Z critical value of 1.96 at 95% confidence level showing that there was a positive and significant association between financial services outsourcing and speed. On the other

hand, human resource outsourcing was found to have a positive but insignificant effect on operational performance ( $\beta = .132$ ,  $t = 1.783$ ,  $p = .081$ ).

#### 4.6.2 Relationship between Outsourcing Practices and Cost

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.687 <sup>a</sup>	.471	.429	.62525

a. Predictors: (Constant), financial services outsourcing , administrative support outsourcing, logistics outsourcing, human resource outsourcing

The R-square value in the model was 0.471 meaning 47.1% of the variation in cost can be predicted by outsourcing while the other 52.9% was attributed to other factors not factored in for the study. Despite explaining a significant proportion of cost, the R square value obtained was below 50% and thus poor for analysis.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.435	4	4.359	11.149	.000 <sup>b</sup>
	Residual	19.547	50	.391		
	Total	36.982	54			

a. Dependent Variable: Operational performance

b. Predictors: (Constant), financial services outsourcing , administrative support outsourcing, logistics outsourcing, human resource outsourcing

Further analysis of the model provided the ANOVA test indicating a p-value of 0.000 confirming that the regression model is statistically significant ( $p < 0.05$ ). The F calculated value of 11.149 which was more than the F critical value of 2.56 shows that the model was statistically significant. The study thus concludes that service outsourcing have a significant influence on operational performance real estate firms in Nairobi City County



Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardized Coefficients		Standardized		
	B	Std. Error	Coefficients		
(Constant)	1.202	.553	Beta	2.174	.034
Financial services outsourcing	.072	.179	.064	.404	.688
Administrative support outsourcing	.306	.101	.442	3.031	.004
Logistics outsourcing	.292	.110	.307	2.656	.011
Human resource outsourcing	.181	.102	.226	1.774	.082

a. Dependent Variable: Cost

The constant value of 1.202 shows the level of operational performance that would be attained by real estate firms even without outsourcing. The coefficients table showing that administrative support outsourcing and logistics outsourcing have a positive and significant effect on cost ( $\beta = .306$ ,  $t = 3.031$ ,  $p = .004$ ) and ( $\beta = .292$ ,  $t = 2.656$ ,  $p = .011$ ) while financial outsourcing and human resource outsourcing were found to have positive but insignificant effects on cost as shown by  $t$  calculated values of less than 1.96 and  $p$  values greater than 0.05 ( $\beta = .072$ ,  $t = .404$ ,  $p = .688$ ) and ( $\beta = .181$ ,  $t = 1.774$ ,  $p = .082$ ) respectively.

#### 4.6.3 Relationship between Outsourcing Practices and Quality

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.821 <sup>a</sup>	.674	.648	.50853

a. Predictors: (Constant), financial services outsourcing, administrative support outsourcing, logistics outsourcing, human resource outsourcing

The R-square value in the model was 0.674 meaning 67.4% of the variation in cost can be predicted by outsourcing while the other 32.6% was attributed to other factors not factored in for the study. This shows that the model adopted was good for analysis

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.706	4	6.677	25.818	.000 <sup>b</sup>
	Residual	12.930	50	.259		
	Total	39.636	54			

a. Dependent Variable: Quality

b. Predictors: (Constant), financial services outsourcing , administrative support outsourcing, logistics outsourcing, human resource outsourcing

Further analysis of the model provided the ANOVA test indicating a p-value of 0.000 confirming that the regression model is statistically significant ( $p < 0.05$ ). The F calculated value of 28.818 which was more than the F critical value of 2.56 showing that the model was statistically significant. The study thus concludes that service outsourcing have a significant influence on operational performance real estate firms in Nairobi City County

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
	(Constant)	2.311	.747		
	Financial services outsourcing	.078	.065	.105	1.195 .238
	Administrative support outsourcing	.555	.186	.373	2.984 .004
	Logistics outsourcing	.185	.189	.109	.981 .332
	Human resource outsourcing	.528	.151	.523	3.491 .001

a. Dependent Variable: Operational performance

The coefficients table shows ( $\beta = .078$ ,  $t = 1.195$ ,  $p = .238$ ) for financial services outsourcing meaning that the outsourcing of financial services had an insignificant impact on quality. On the other hand, logistics outsourcing was found to have a positive and insignificant effect quality ( $\beta = .185$ ,  $t = .981$ ,  $p = .332$ ). Similarly, human resource outsourcing and administrative support outsourcing were found to have positive and significant effects on quality as shown by  $t$  calculated values of more than 1.96 and  $p$  values less than 0.05 ( $\beta = .528$ ,  $t = 3.491$ ,  $p = .001$ ) and ( $\beta = .555$ ,  $t = 2.984$ ,  $p = .004$ ) respectively.

From the regression analysis model on the effect of outsourcing practices on the operational performance, the significance values for all the parameters of operational performance were found to be significant as depicted by a  $p$  value of ( $p = 0.000$ ) at 95% confidence level. This therefore implies that the outsourcing decision is significant in predicting the organization's operational performance. These findings differ with Muriithi (2014) who argued that outsourcing did not significantly affect operational performance but agree with Mwichigi (2015) who found that there exists a positive relationship between key outsourced services and operational performance

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter looks at the summary of findings, conclusion, recommendations, limitations, suggestions for further research and implication of the study to the theories, practice and the government.

### **5.2 Summary**

The study's objective was to establish the effect of outsourcing practices on the operational performance of real estate firms in Nairobi, Kenya. The study used field data to derive findings. The demographic information results indicated that majority of staff had worked for the firms for longer periods hence had a deeper understanding on matters related to the services their organizations had outsourced. The findings also indicated that the firms had employed a large number of employees which was a good indicator of growth. The findings also indicated that most of the firms had been operating for relatively longer durations thus a good indicator of sustainability.

The findings the different attributes of administrative support outsourcing such the organization outsources all the administrative functions that are routine in nature, outsourcing has enabled the organization to use modern technology in discharging administrative duties and the respondents to some extent that the administration costs have reduced since our organization started outsourcing administrative services produced positive responses.

Financial services outsourcing practices such as our organization engages external accountants to assist in computing tax returns, outsourcing has enabled the establishment to be more efficient in auditing, the firm engages qualified accountants in shapping the operational and financial costs, our organization has contracted highly qualified auditors auditing and our organization contracts qualified accountant to assist in executing audits. Similarly, the respondents construed that had highly leveraged logistics functions such as material handling management, warehouse management, transportation management and standardization management. Information management was however found to have been outsourced to a lower extent. Further, the average mean obtained on the outsourcing of human resource functions such as recruitment of the top management, trainings and workshops for staff, performance appraisals and employee feedback showing that the service was largely outsourced.

An investigation on whether the level of operational performance of real estate firms registered an high overall mean implying that the firms had been streamlining its operations over time. From the regression analysis model on the effect of outsourcing practices on the operational performance, the significance values for all the parameters of operational performance namely speed, cost and quality were noted to be statistically significant. This therefore implies that the outsourcing decision is significant in predicting the organization's operational performance

### **5.3 Conclusion**

From the data analysis, it can be real estate firms have outsourced most services. While some activities such as logistics outsourcing, human resource outsourcing and administrative support outsourcing have been largely outsourced, others such as financial services have been outsourced to a moderate extent. The survey established that the major drivers of outsourcing include cost reduction followed by cost saving and capital investment reduction and the need to focus on core businesses. From the findings, we also see that outsourcing has positively on the operational performance of real estate firms. Most of the respondents felt that costs, productivity and service delivery had improved but there were some concerns on innovation, flexibility and service delivery.

The study further concludes that the outsourcing practices employed by the firms would in the long run dictate their survival as they will seek to reduce operational costs and increase the operational performance in terms of reduced lead time, increased productivity and profitability. Real estate firms must therefore understand the areas which they should concentrate their resource. By outsourcing to specialist establishment's services not generated by core competencies, real estate firm's management can see improvements in their operational performance.

### **5.4 Recommendations**

Based on the study findings, the study makes the following recommendations. First, real estate firms in Kenya should focus to improving services to its clients through outsourcing important services. The outsourcing of key services ensures that each component is taken care of efficiently which ensures the offering of quality services to

the clients. The outsourcing of services in the real estate sector to improve on their performance in areas that show laxity in service delivery to meet the expected standards

Secondly, the firms should adopt the outsourcing approach in more of its services that are very key to the running in their businesses. They should increase the components outsourced from each of the outsourcing practices cited namely, financial service outsourcing, administrative logistics outsourcing and human resource outsourcing since incase there is any problem or laxity, the impact can be widely felt across the organization.

Lastly, the firm's management should be recognize that the outsourcing decision presents the organization with different challenges. It is therefore imperative for the organization to put in place strict measures to mitigate the menace that comes with outsourcing since most become a management menace. Real estate firms should consider the quality of services they are receiving from outsourced organizations compared to what was initially there to ensure that there is no laxity from the third party companies and that the organization is gaining.

## **5.5 Limitations of the Study**

Because of confidentiality policy that is in various firms, it was difficult to obtain all the required information as some of the respondents were seeking approval from the legal department. This also explains why the researcher was only able to receive back 70.55% of the questionnaires issued.

The research focused one respondent per firm leaving aside others. This could have left out important information that is vital for the study. The understanding of outsourcing by different employees in the organization might vary.

### **5.6 Suggestions For Further Research**

Further research should be conducted to test and validate the research findings using the qualitative approach to ascertain if the same findings hold. Further studies should be carried out on more potential predictors of operational performance since in this study some percentage for each parameter of operational performance namely speed, cost and quality with 38.9%, 52.9% and 32.6% respectively remained unexplained.

The same study can also be carried out using a wider population across a mix of industries in Kenya so as to get findings that are applicable to all industries in Kenya where outsourcing is evident.

Although data collection was limited to the use of questioners, more robust qualitative methods are recommended for further research; namely, comparative research, observation and interviews.



## REFERENCES

- Ashtano , U. (2013), New dimensions of outsourcing: a combination of transaction cost economics and the core competencies concept, *European Journal of Purchasing & Supply Management*, 6 (1), 23-9.
- Barney J.B., Hesterly W., (1996). “Organizational Economics: Understanding the Relationship between Organizations and Economic Analysis”, in Clegg S.R., Hardy C., Nord W.R. (Eds.) *Handbook of Organization Studies*, Sage Publications, London.
- Brannemo, A. (2006). How does the industry work with sourcing decisions? Case study at two Swedish companies. *Journal of Manufacturing Technology Management*, 17(5), 547 – 560.
- Burns & Burns, R. (2010). *Research Methods for Business: A Skill Building Approach* (5th ed.). New Jersey: John Wiley and Sons, Hoboken.
- Chandrashekar A. S. A. (2008). 'Outsourcing services: the contract is just the beginning', *Business Horizon*, March–April: 25–33.
- Chen, H., Daugherty, P., & Landry, T. D. (2016). Outsourcing: A theoretical Framework'. *Journal of Business Logistics*. 30 (2): 27-46
- Cook, M.F. & Gildner, S.B. (2006), *Outsourcing Human Resources Functions: How, Why, When, and When Not to Contract for HR Services*, Society for Human Resource Management, Alexandria, VA.
- Cooke, F.L., Shen, J. & McBride, A. (2005), “Outsourcing HR as a competitive strategy? A literature review and an assessment of implications”, *Human Resource Management*, 44 ( 4) 413-32.
- Delmotte, J. and Sels, L. (2008), “HR outsourcing: threat or opportunity?”, *Personnel Review*, 37 (5) , 543-63.
- Didia, J. D., & Nwokah, N. G. (2015). Outsourcing and Business Performance in the Telecommunication Industry in Nigeria. *International Journal of Supply Chain Management*, 4(2).
- Eisenhardt, M, K. (1989), Agency theory: An assessment and review, *Academy of Management Review*, 14 (1) 57-74.

- Elmuti, D. (2003), “The perceived impact of outsourcing on organizational performance”, *Mid-American Journal of Business*, 18 (2), 33-41.
- Grover , J. (1996), Viewpoint. The cost-benefit of outsourcing: assessing the true cost of your outsourcing strategy, *European Journal of Purchasing & Supply Management*, 1 (1) 45-77.
- Herbertson, I. (2000), “Outsourcing HR for the Dome”, *British Journal of Administrative Management*, 20: 18-20.
- Jensen, M.C., & W.H. Meckling (1976), Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3 (4) 305–360.
- Jensen, M.C., and W.H. Meckling (1976), Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3 (4) 305–360.
- Kaufmann, L., & Gaeckler, J. (2015). On the relationship between purchasing integration and purchasing decision-making speed. *International Journal of Physical Distribution & Logistics Management*, 45(3), 214-236.
- Kobu, R. H. (2007). *Business Logistics/ Supply Chain Management*, 5/E (With Cd). Pearson Education India.
- Kothari, C. (2004). *Research Methodology; Methods and Techniques*. New Delhi: New Age International Publishers.
- Lee, D. (2000). *Strategic restructuring and outsourcing: the effect of mergers and acquisitions and LBOs on building firms skills and capabilities*. *Journal of Management*, 21(5), 835-859.
- Mark , A. (2012) Outsourcing implications on companies’ profitability and liquidity: a sample of UK companies, *Work Study*, 49 (7)265-275.
- Miller, S. R., & Ross, A. D.(2003). An exploratory analysis of resource utilization across organizational units: Understanding the resource-based view. *IJOPM*, 23(9), 1062-1083.
- Mugenda, O. M., & Mugenda, A. G. (2012). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press

- Mwichigi, N (2015). Relationship between Outsourcing and Operational Performance of Kenya's Energy Sector: A Case Study of Kenya Power. *International Journal of Academic Research in Business and Social Sciences*, 5(3)
- Pratel, J., & Sparks, L. (2006). *Logistics and retail management: emerging issues and new challenges in the retail supply chain*. Kogan Page Publishers.
- Seo, Y.-J., Dinwoodie, J. and Roe, M. (2015), "Measures of supply chain collaboration in container logistics", *Maritime Economics & Logistics*, 17 (3), 292-314.
- Sharpe, M. (2011). Outsourcing gains speed in corporate world. *Journal of Labor Research* 535-549.
- Smith, P.C., Vozikis, G.S. & Varaksina, L. (2006), "Outsourcing human resource management: a comparison of Russian and US practices", *Journal of Labor Research*, 27 (3) 305-21.
- Stacey, K.M.(2014) Human resource outsourcing and organizational performance in manufacturing firms, *Journal of Business Research*, 57 (3) 232-240.
- Wahrenburg, M., Hackethal, L.F. & Gellrich, T. (2006), "Strategic decisions regarding the vertical integration of human resource organizations: evidence for an integrated HR model for the financial services and non-financial services in Germany, Austria and Switzerland", *International Journal of Human Resource Management*, 17 (10) 1726-71.
- Williamson, O. E. (1996). *The mechanisms of governance*. Oxford University Press.
- Williamson, O. E. (2000). *The economic institutions of capitalism: firms, markets and*

## APPENDICES

### Appendix I: Questionnaire

#### SECTION A: FIRM BIO DATA

Please tick the appropriate box that corresponds to your answer.

1. How long have you been in practice in the real estate?

a) 1-5 years [ ]

b) 5-10 years [ ]

c) 10-15 years [ ]

d) Over 15 years [ ]

2. For how long has the firm been in operation?

Below 10 years

11 to 20 years

Above 20 years

3. How many employees are there in your company?

a) Less than 50 ( )    b) 51 – 100 ( )    c) 101 – 200 ( )    d) Above 200 ( )

#### SECTION B: Outsourcing practices

4. Kindly indicate the extent to which outsourcing relating to human resource outsourcing has been implemented in your organization. Use the following key: 1- Very little extent

2- Little extent 3-Moderate Extent 4-Large extent 5- Very large extent

	<b>Financial services outsourcing</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Our organization has contracted highly qualified auditors					
2	Our organization frequently engages qualified accountants to assist in preparing books of accounts and auditing					
3	The firm engages qualified accountants in putting in place financial and operational costs					
4	Our organization engages external accountants to assist in computing tax returns					
5	Our organization contracts qualified accountant to assist in carrying out audits					
6	Outsourcing has helped the organization to be more efficient in auditing					

	<b>Administrative support outsourcing</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	In our organization administrative services have been outsourced to reputable firms					
2	Administration costs have reduced since our organization started outsourcing administrative services					
3	Due to outsourcing, our organisation is able to concentrate on its core businesses and therefore achieve improved customer satisfaction					
4	Outsourcing has enabled the organization to use modern technology in discharging administrative duties					
5	The organization has outsources all the administrative functions that are routine in nature					

<b>Logistics outsourcing services</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Warehouse management					
Transportation Management					
Material handling and Management					
Equipment leasing					
System management and improvement					
Standardization of procedures					
Information management					

### **Section C: Outsourcing and Operational Performance**

8. To what extent do you agree with the following statements regarding the effect of outsourcing on operational performance of your organization? The scale below will be applicable:

	<b>Operational Performance-Cost</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Are your customers willing to pay extra money in order to purchase new products or service that hits the market?					
2	Your organization measures staff productivity on a weekly basis					
3	The firm's resources are used well					
4	The Business performs well generally					

	<b>Operational Performance-Speed</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Email communications from internal and external clients are responded within same day					
2	Telephone calls are picked within the third ring					
3	The response time to clients queries is immediate					
4	Services requested by clients are provided within					

	the required timeline.					
--	------------------------	--	--	--	--	--

	<b>Operational Performance-Quality</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	The firm delivers the expected standard at all times					
2	The firm considers quality as the key success factor					
3	Most customers enjoy quality services from the firm					
4	Customers give feedback on the quality of services offered					

**Thank you**

## **Appendix II: List of Real Estate Firms**

1. Acorn Management Services Ltd
2. AHCOF Investments (Kenya) Company Ltd
3. Akarora Limited
4. Amboseli Court Ltd
5. AMS Properties Ltd
6. Amazon Projects Limited
7. Bahati Ridge Development Ltd
8. Blueline Properties Ltd
9. Boleyn Magic Wall Panel Ltd
10. Camelot Consultants/Lantana Homes Ltd
11. Cheriez Properties Ltd
12. Century City Property Ltd
13. Chigwell Holdings Ltd
14. Cytonn Real Estate
15. Daykio Plantations Ltd
16. Dunhill Consulting Ltd
17. Elegant Properties Ltd
18. Elm Ridge Ltd
19. Endless Africa Ltd
20. Enkavilla Properties Ltd
21. Fairdeal Development & Infrastructure Ltd
22. Fedha (Management) Ltd
23. Golden Compass Ltd
24. Hass Consult Ltd
25. Heri Homes Ltd
26. HF Development and Investments Ltd (HFDI)
27. Home Afrika Ltd
28. INFPAC Ltd
29. iJenga Ventures Ltd
30. Jabez Properties
31. Jambo Holdings Ltd
32. Karibu Homes
33. Karume Holdings Ltd
34. Kings Developers Ltd
35. Kzanaka Ltd
36. Laser Property Services Ltd
37. Leo Capital Holdings Ltd
38. Lordship Africa
39. Manrik Group Ltd
40. Meera Construction Ltd
41. Mlima Construction Company Ltd
42. MML Turner & Townsend
43. Mugumo Developments Ltd
44. Nanyuki Mall Ltd



45. National Cooperative Housing Union (NACHU)
46. Natureville Homes
47. Norcent Projects Ltd
48. Oak Park Properties Ltd
49. Optiven Ltd
50. Panda Development Company Ltd / Aberdare Hills Golf Resort
51. Pentagon Properties Ltd
52. PDM (Kenya) Ltd
53. Pioneer Holdings (Africa) Ltd
54. Resorts and Cities Limited
55. Rozana Properties Ltd
56. Saif Real Estate
57. Sayani Investments Ltd
58. Scion Real Estate Ltd
59. Sherry Blue Properties Ltd
60. Shreeji Development Ltd
61. Sigimo Enterprises Ltd
62. SJR Properties Ltd
63. Sohail Developments Ltd
64. SLOK Construction Ltd
65. Soma Properties (Sarit Centre)
66. Superior Homes Kenya
67. Tatu City Ltd
68. Tecnofin Kenya Ltd
69. The Combined Warehouses Limited
70. The Epic Properties Ltd
71. Tilisi Developments Ltd
72. TSG Realty Ltd
73. Two Rivers Development Ltd
74. Unity Homes Ltd
75. Username Investment Ltd
76. VAAL Real Estate
77. Vishwa Developers Ltd
78. Wood Products Kenya Ltd

**Source: KPDA, 2019**