

**OUTSOURCING AND OPERATIONAL PERFORMANCE OF  
COMMERCIAL STATE, CORPORATIONS IN KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THEREQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
FACULTY OF BUSINESS AND MANAGEMENT SCIENCE,  
UNIVERSITY OF NAIROBI**

**2021**

## DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.



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This research Project has been submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

I dedicate this research project to my family for their unwavering support and encouragement all through this research project.

## **ACKNOWLEDGEMENTS**

It is with deep gratitude that I thank God for the blessing of life and the opportunity to make it thus far. Thank you to my supervisor Dr.Peterson Magutu, as well as all the others who helped make this research project a success, for your direction and support during the whole writing process. I also want to thank my MBA professors, who taught me so much throughout my time in the school, allowing me to expand my research with their expertise. Lastly, I'd want to thank my fellow students for their support and encouragement during the study process.

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## **ABBREVIATIONS AND ACRONYMS**

RBV:	Resource Base Theory
ROI:	Return on Investment
ROA:	Return on Assets
CSC:	Commercial State Corporations
HR:	Human Resource

## ABSTRACT

Due to the ever-changing nature of today's global marketplace, doing business has become more difficult. Organizations are becoming sick of the old methods of conducting business because of the increasing number of signs that point to higher uncertainty in the future. In order to remain competitive and viable in the market, most organizations have devised solutions to address these issues. One strategy is to focus on the company's core capabilities while outsourcing or contracting out the majority of the company's operations. An analytical measuring system is required for the never-ending process of improving operational performance. The general objective of the study is to examine effect of outsourcing on operational performance of Commercial state corporations in Kenya. The study was anchored by the core competency theory, agency theory and resource based view. The study used descriptive cross-sectional survey. The data was collected from operations managers, warehouse managers and supply chain managers. It was found that ICT services, logistics management services, human resource, sales and marketing and financial management were the most commonly outsourced services. Logistics and human resource services were outsourced to the greatest extents. A favorable association among outsourcing and operational performance, according to the study's findings, was shown to exist. According to the findings of the research, commercial state corporations outsource ICT to the greatest degree possible. A favorable association among outsourcing and operational performance, according to the study's conclusions, was shown to exist. The study also came to the conclusion that service outsourcing enhances the operational performance of commercial state corporations in form of greater levels of productivity, enhanced productivity of employees, reductions in operating costs, savings on hiring costs, timely delivery, and better quality. According to the findings of the research, commercial state enterprises in Kenya should strive to improve services to its customers by outsourcing critical functions. Outsourcing important services guarantees that each aspect is handled effectively, allowing for more time to be spent on the delivery of services. Second, the study suggests that commercial state businesses assess their outsourcing policies to ensure that service providers are used in the supply of some services that are not important in the functioning of the company.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Recent decades have seen an increase in global complexity, uncertainty, and competition. The changing global environment has made it more difficult to do business in the modern world. For businesses, the ever-changing environment has become a breeding ground for heavy disruptions that pose a significant danger to their long-term viability (Kamah, 2012). Traditional business practices are becoming less appealing due to a growing sense of uncertainty about the future. Most companies have found solutions to cope with these difficulties in order to stay competitive and relevant in the market. In order to focus on core skills, one strategy is to outsource or delegate most of the work to outside vendors (Mogere, 2015).

The study was anchored by the core competency theory, agency theory and resource based view. According to Prahalad and Hamel (1990), core competencies are those aspects of an organization's or an employee's work that are deemed important enough to merit a high priority. According to Jensen and Meckling (1976), a theory is concerned with how firm owners (the principals) and managers (the agents) might work together to achieve a goal on their own. Lastly, Resource dependence theory by Godfrey (1998), suggests that organizations rely on the outputs of other organizations to sustain growth and optimize operational performance including other organizations that depend on them (Paloviita & Luoma-aho, 2010).

ver the years, companies operating in Africa have been aggressive on reduction of cost on their operations. This is realized through effectiveness and efficiency in the organizations so as to improve profitability (Daveport, 2008). Commercial state corporations across the country have embraced use of technology in their operations to enhance their performance (Hardy & Williams, 2011). According to Crook and Kumar (2008), Commercial State Corporations (CSC) has made progress on the use of outsourcing practices in order to improve their performance.

### **1.1.1 Outsourcing**

Outsourcing can be explained as contract made between two organizations whereby one organization will manage some or all processes of the other organization (Sharma, 2004). Outsourcing is regarded as a management strategy of a company. It happens when a firm outsources a portion or all of its non-core activities to established external service providers in order to benefit from these providers' expanded expertise. Companies do this so that they can drive their competitive advantages in their market of operation (Sharpe, 1997). The motives or drive behind making outsourcing decisions is based on several factors. The first is knowledge in form of advice or information obtained from third party providers, suppliers, customers or consultants that support outsourcing of processes or activities. The second is managerial initiatives and high-level decisions from decision makers on opting for outsourcing to increase their business performance (Mol and Kotabe, 2008).

One of the key benefits of outsourcing to a company is cost reduction in terms of its operating costs. This is because generally outsourcing of some of the business activities to the third-party service provider is cheaper than the same activities being performed internally (Kokes, 2014). Outsourcing also improves the quality of service delivery. The company concentrates on its core functions that result in increase of efficiency and effectiveness of their operations and thus improve customer satisfaction. Further, outsourcing enables firms to have more operating flexibility. This results in providing an environment that fosters innovation and business growth (Wabwile & Namusonge, 2015). These contracted or outsourced companies enjoy economies of scale and acquire unique expertise because of the large number of clients that they have and can employ new technologies and innovative practices to their operations (Jiang, Frazer & Prater, 2001).

The outsourcing phenomenon is growing through industries and affecting decisions that managers make regarding their core business functions. In connection with other techniques, outsourcing is creating new business frontiers and complicated environment for customer-supplier relations with calls for increased external integration in outsourcing Partnerships (Kakouris et al., 2006). Outsourcing is widely regarded as one of the most important advances in management studies that spans a wide range of businesses and subsectors, including manufacturing, service industries, and the public sector.

### **1.1.3 Operational Performance**

Waste reduction, productivity, cycle time, environmental responsibility, and regulatory compliance are all included in the notion of benchmarking (Vencataya, 2011). It focuses

on the company's ability to reduce waste and lower expenses, enhance product quality, create new goods, improve delivery capacity, and increase productivity (Riyadi & Munizu, 2013). As part of an organization's operational performance, these quantifiable components include manufacturing cycle time, dependability and stock turnovers. Market share and customer satisfaction are also reflected in this measure (Voss, hlström and Blackmon 1997).

As a result of improved production efficiency and the development of high-quality products, organizations see a rise in revenue and profits from operational performance (Kaynak & Hartley, 2008). How efficiently and successfully the company produces things and services, and how well its products and services fulfill its customers' demands and expectations, is determined by its operational performance (Vencataya, 2011). Operations performance is critical to the management of organizational operations and is critical to establishing optimal routes for long-term competitiveness in the market (Hwang, Han, Jun & Park, 2014). It enhances the company's ability to achieve its primary goals, such as productivity, quality, and service, in a more efficient manner (Bayo-Moriones, &De Cerio, 2002).

Evaluation of a company's operational performance is an essential activity for the preservation of a firm's competitive edge (Hwang et al, 2014). Performance to schedule, preventative maintenance, productivity metrics, lead time measures, quality measures, inventory measures, utilization and speed are only a few of the different methodologies and aspects used to assess operational performance (Birech, 2011). For this study's

purpose, operational performance has been prioritized in terms of efficiency, quality, and speed. High operational performance necessitates a firm's consideration of all its resources, including personnel. Organizations must treat their employees as assets and utilize them to their fullest potential to achieve optimal production. Organizational efficiency is defined as the capacity of a company to use its resources in the most efficient way possible. Customers benefit from lower prices because of the company's efforts to reduce waste (Vencataya, 2011).

#### **1.1.4 Commercial State Corporations in Kenya**

This word "State Corporation," according to Wamalwa (2003), is vague. Among other things, the President may order the creation of a State Corporation to fulfill the government's responsibilities. According to the Banking Act or the Company Act, the government may also be represented by a financial institution or bank that is licensed as a financial institution or bank.

Cap. 446 of 1987, the State Corporation Act in Kenya, established commercial state corporations. State-owned enterprises were founded in the 1960s and 1970s, when most of the country's state-owned enterprises were established. Frabrozio et al. (2011) conducted a study and observed that over the last decade, many changes have taken place in Commercial state corporations across the globe such as development of new corporations or improvement of the existing ones. This has been attributed to implementation of modern technologies such as information communication technology (ICT). Firms have been pushed to implement strategic procurement procedures in order



to stay competitive in the market because of the growing need for efficiency in state-owned commercial enterprises (Graham & Melyn, 2011).

Commercial state corporations have been formed so as to meet both social and commercial objectives. They are meant to correct failures in the market, exploit aims in social and political areas, offer education, health and redistribution of income in marginal areas (Greunen et al., 2010). The Sessional Paper No. 10 of 1965 retooled 31 commercial state enterprises as essential to the expansion of the economy at the time of independence.

## **1.2 Research Problem**

All around the developing world, there has been a surge in the tendency toward outsourcing. There is need to specialize in a limited scope of key areas that is driven by the requirements of higher efficiencies and need for cost reductions. To accomplish performance improvements across the corporations, outsourcing is progressively being employed. Companies are greatly benefiting because of access to supplier's expertise capabilities in different business processes (Romano & Danese, 2010). Suppliers that specialize in certain processes have an advantage over generalists in that they may take advantage of economies of scale and have a deeper grasp of the processes at hand. Because they may outsource certain company functions that are vital and concentrate on strengthening internal core abilities, organizations will gain from employing the talents of the more proficient suppliers (Valmohammadi & Servati, 2011).

Like other organizations operating in a global environment where change is inevitable for a firm to remain competitive, Commercial state corporations have not been left behind when it comes to adopting the concept of outsourcing. The need for outsourcing at Commercial state corporations are mostly driven by greater need for cost reduction, need for flexibility, access to global resources and financial benefits. At Commercial state corporations some of the outsourced functions include financial management function, logistic, cleaning services and security services. Magutu et al. (2013) found that the majority of managers favor outsourcing logistics activities in order to enhance the overall performance of their firm.

Stock control techniques and operational performance practices have been the subject of a number of studies, both global and local: Nyameboame and Abubaker (2017), for example, found that outsourcing services resulted in cost savings, better access to innovation and know-how, enhanced service delivery, and the flexibility of the firm to specialize on its core tasks. To better understand how outsourcing impacts supply chain performance among mobile enterprises in Kenya, Kamah (2012) conducted a study on the relationship between outsourcing and supply chain responsiveness, dependability, agility, and competitive advantage of mobile firms. Kamah (2012) mostly focused on supply chain system responsiveness and influence on outsourcing as opposed to responsiveness of supply chain performance in relations to outsourced activities within the system.

Public universities' performance was examined by Abdirahman (2017), who researched the consequences of service outsourcing. Though this association was described in terms of outsourced tasks and identifying outsourcing issues, his analysis was confined to public institutions and the general performance rather than supply chain performance. The supply chain performance of cement manufacturing firms in Kenya was examined by Mogere (2015), who found that service outsourcing had a significant impact on supply chain performance, including cleaning and catering, IT outsourcing, customer service outsourcing, security guard outsourcing, laundry outsourcing, and transportation and logistics outsourcing.

According to Ngetich (2014), supply chain performance in several other sectors, which are naturally distinct in their supply chain systems, is a focus. It was found that the majority of manufacturing organizations in Nairobi, Kenya had outsourced warehousing, transportation, and material handling as a survival strategy, according to a study by Magutu and Chirchir and Mulama (2013), which looked into how outsourcing affected the performance of manufacturing organizations. Delmonte Kenya Limited's organizational performance was examined by Maku and Iravo (2013), who looked at how the outsourcing choice had affected Delmonte's performance. According to the data, outsourcing has a beneficial impact on performance.

As a result, there is a knowledge gap regarding outsourcing and operational effectiveness in Kenya's commercial state businesses. Based on the fact that no research on outsourcing and operational performance in Kenya's commercial state enterprises has been conducted.

The following research questions will lead this study: What services are outsourced by Commercial state companies in Kenya and what impact does outsourcing have on the operational effectiveness of Commercial state corporations in Kenya?

### **1.3 Research Objectives**

The study objectives were:

- i. The study was to establish the outsourced functions that are commonly used by Commercial state Corporation in Kenya
- ii. The study was to determine the effect of outsourcing on operational performance by Commercial state Corporation in Kenya.

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

The findings of this study will aid in the filling of the current knowledge gap and open the door to other investigations in the future. Furthermore, the study's results will have a positive impact on both practice and theory, as it will help public sector policymakers by determining the link between outsourcing and operational performance of commercial state enterprises. The findings also will be a crucial factor in the designing, planning and adoption of outsourcing practices.

Policymakers may use this report as a reference in their efforts to establish regulations, regulate and manage state businesses in the nation, especially in the field of outsourcing. In the outsourcing process, commercial state businesses will be able to make outsourcing

choices that are correct and take into consideration the specific possible risks and rewards that are involved in outsourcing, as well as the anticipated economic implications.

The results of the research are essential to Kenyan commercial state businesses in the sense that commercial state corporations will be able to attain efficiency and effectiveness in the adoption of outsourcing techniques. The conclusions of this research will assist commercial state firms in formulating policies and business practices that encourage the use of outsourcing methods in order to improve their operational efficiency.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

There are several ideas and empirical research on outsourcing and operational performance that are discussed in this literature. In this chapter, we'll discuss the research gaps in outsourcing and operational performance.

#### **2.2 Theoretical Review**

Several theories offer insights and provide clarity into the rationale underlying the outsourcing and operational performance on Commercial State Organization. They include the core competency theory, agency theory and resource-based view.

##### **2.2.1 Core Competency Theory**

In the 1990s, Prahalad and Hamel pioneered the notion of core competence in their research that influenced management theory (Barley, 1991). It is premised on the view that activities that a firm holds core competencies are to be operated in-house but activities that a firm do not hold core competencies, and are not very critical, should be considered for outsourcing. Core competencies are factors that a business finds as vital to the way the organization or its employees execute their duties. When a firm aims to gain a competitive advantage by generating distinctive resources and talents, it becomes crucial (Kawshala, 2017). Core competency theory highlights the importance of the “make or buy” decision as a strategy in a firm’s supply chain (Ikediashi, 2014).

Core competencies can be considered long-term competitive activities that a company holds key competitive advantages. Non-core tasks may be delegated to external service providers, who may also be competitors, but the corporation must protect these activities from its rivals.' To take advantage of its supply chain strengths, as well as possibilities to outperform the competition, a firm might use this strategy.

According to Urquhart (2002), the theory prompts serious analysis of an organization's business functions. Operations that are cost effective to be considered for in-house, but those without risk of losing any future requirements of expertise to be considered for outsourcing. Outsourcing certain core services may be more cost-effective than doing them in-house in some situations when the bulk of the work requires a degree of ability that cannot be outsourced. In conclusion, the theory suggests that firms should outsource most activities that are none core with the aim of lowering operation costs while at the same time taking advantage of external innovation.

### **2.2.2 Agency Theory**

In 1976, Jensen and Meckling came up with this notion. Managers and executives of the firm are said to be acting as agents on behalf of their shareholders, according to this theory. Agency theory claims that the separation of ownership and management in many modern organizations may lead to challenges in agency because of this separation (Jensen & Meckling, 1976). A conflict between shareholders' and management's interests results in agency costs, which the principle, who delegated some decision-making authority to the agent, is held liable for. By Meckling and Jensen, it was defined as a combination of

bonding costs, monitoring costs, and residual loss. Though the costs of monitoring and bonding have been examined, management and shareholders' interests are not completely matched.

Decisions, changes, and policies undertaken by managers are often influenced by the consideration of outsourcing as one of the factors (Mario, 2014). Commercial State Corporation (Kenya) administrators have the job of making sure their institutions remain financially viable, lucrative, and efficient. That's why the idea applies to executives at state-owned corporations who decide what kind of outsourcing to pursue, using rules that are already in place. When it comes to deciding whether or not to outsource, the bank's owners or founders have a major role.

This theory has received a lot of criticism. As an example, Kostova, Nell, and Hoenen (2016) explored the probable misuse of delegated obligation by looking at the agency link between the parent company and the subsidiary. In their view, subsidiaries should not act as agents for the parent firm since they would make choices that exclusively benefit the subsidiary. This means that banks must outsource high-quality talents and services if they want to maintain or increase their competitive advantage as representatives of the owners.

### **2.2.3 Resource-Based View**

Birge was the first to suggest this concept way back in 1984. According to this idea, organizations examine their competitive advantage by conducting strategic advantage



evaluations. The RBVs state that every company has its own unique collection of physical and intangible resources, as well as the ability to make use of those resources. They vary in this way, and it's one of the contributing factors. As each company's resources are utilized to their fullest potential, each business gains a competitive edge (Alvarez & Busenitz, 2001). The smart use of resources and the effectiveness of an organization are intertwined.

Commercial State Corporation in Kenya may benefit from a resource-based perspective in devising strategies that focus on economic development via unique capabilities. In order for businesses to thrive, they require more than just the cost of the capital they use. Using a resource-based approach, Kenya's Commercial State Corporation may better understand their underlying resources for supporting positioning strategy before such resources are considered by the business itself (Moller & Broderick, 1998).

An organization's competitive advantage may be gained via the improvement of scarce resources, as proposed by Barney (1996). Competition is based on the uniqueness and scarcity of a company's assets. It's essential to learn about the strengths and weaknesses of each company, and then to identify and differentiate them from one other. What the company can do is not simply to reduce the time it has, but to manage the finances it has. A company's long-term success or growth depends on its capacity to create unique talent, according to Learning et al. (1969).

According to RBV, successful firms have stronger organizational design. Because of their cheaper prices, better products, and improved performance, they have become more popular (Das & Teng2000).This research relies heavily on the notion of the resource-based approach, which helps explain how the combination of resources through time leads to the creation of unique skills that contribute to performance and competitive advantage.

### **2.3 Outsourcing Practices**

According to Norek and Pohlen (2001), a company's business operations may be outsourced so that the company can focus on its core strengths and reduce operating costs, which in turn helps boost shareholder value. As stated by Kotabe, Mol, and Murray, outsourcing is a technique in which a company outsources services that might have been provided internally (2008). An organization approach in which a corporation outsources critical, non-core operations to service providers that are highly skilled and competent is further described by Corbertt (1999).

Cutting costs, starting new initiatives, and enhancing efficiency are all closely related to the ICT outsourcing approach. As a result of poor management of both internal and external threats, the dangers connected with ICT often begin. Natural disasters or other events beyond a company's control might pose a danger from the outside. Internal weaknesses may also be caused by external factors, yet both of these can have a negative influence on an organizational asset, little or big. Firms are now able to outsource their IT activities because of the convergence of computer platforms and open architecture.

Firms that dealt with large volumes of information resulted from activities such as research, or collection of customer feedback, usually hired a data management firm to compile and compress the raw data into useable format. According to Ogechi and Nyamieno (2010) in other cases these companies were used as data storage facilities for capacity purposes or due to lack of storage space. Human Resources outsourcing referred to using an outside third party to manage personnel functions of the organization. Many organizations tend to select human resource outsourcing to lessen the costs and time related with controlling human resource processes. Some of the areas outsourced in human resource included payroll, staffing, training and administration and other management support services like advertising and public relations services Richard, (2009).

Customer services is a function commonly outsourced by many cement manufacturing firms as a way to ease the company of the funds they could have used in creating an effective customer care. It is a cost saving strategy and is mostly used during economic downturns (Juras, 2008). Deloitte consulting group (2005), states that in the near future only 50 percent of outsourcing practices was successful. The failure in the process come about as a result of the clients who do not know that they do not understand their business and outsourcing practices, hence do not know how to manage and structure their outsourcing strategies. Many firms have concentrated on cost saving in fixed overheads, that is salaries and forget the hidden costs that come with outsourcing for example cost of contracting, monitoring and appraisal of performance of the outsourcing provider (Ren & Zhou, 2008).

According to Ogorelc (2007), one of the most outsourcing being practiced currently is the outsourcing of transport and other logistics services. These services are usually a major determinant of a firm's competitiveness, a firm's market share and its profitability. Transport services are needed in the whole supply chain since they act as a link between all the supply chain members. He also claims that transportation affects supply chain competitiveness. Through effective transportation management, the firm is able to get raw materials in good time and end users get the products in appropriate time for consumption (Szuster, 2010).

According to Kakouris (2006), accounting services that may be out sourced include bookkeeping and accounting processes that normally involves a wide variety of processes. This may include day to day operations such as accounts payables, accounts receivables and payroll reports, to operations that require long term planning and execution such as taxation, financial planning and budgetary control. When outsourcing of accounting services, firms seek to maintain their accounting integrity in the form of accuracy and reliability, which is an effort consistent with the main areas on to outsource which is excellent quality of service (Kakouris, 2006)

#### **2.4 Outsourcing and Operational Performance**

Outsourcing practices geared towards cost reduction improves efficiency and effectiveness of an organization's supply chain. More often performance is linked to strategies developed in line with company objectives. Outsourcing is taken as one of the best strategies to evaluate quality timelines and deliverability. Thus companies that

outsource their products have a higher chance of delivering superior services which in turn improves customer satisfaction. Ikediashi et al. (2014) noted that outsourcing activities is a way of promoting flexibility within the system and as a result an organization enhances its focus on core activities. Supply chain efficiency and effectiveness may greatly benefit from vendor experience and creative talents. Brewer et al.(2013)noted that outsourcing may lead to several benefits within the supply chain, although in theory, studies have raised questions on whether this is uniformly the case. It was noted that outsourcing achieved product quality with reliable access to the market, improved productivity, enhanced benefits of integration between buyers and suppliers and allowed firms to focus more on functions that provides them with competitive advantage.

According to Nyameboame and Abubaker (2017), who researched the impact of outsourcing on organizational performance in the oil and gas business in Ghana, vendor outsourcing provides a variety of benefits. A larger majority of their respondents indicated that oil and gas firms benefited largely by minimizing cost of operation. In addition, they observed that 76 per cent of respondents in the study were confident that outsourced functions freed time for most firms to focus their attention on core business functions. They found that when companies outsource non-essential operations, they try to focus more on their main business. High number of 61% respondents indicated improved expert knowledge and access to new innovations. It was also noted that use of outsourcing with cost considerations reduced the need to make investments in mature

technology thus eventually easing more resources related to new skills and innovations respective company.

In their research on the factors that influence outsourcing choices on facilities management services in Nigeria, Kawshala, H. (2017) found that the utilization of vendor competence as a technique for improving service quality was highly praised. They noted a high correlation between vendor's competence and improving stakeholders' satisfaction by improving quality of service. The utilization of external companies to provide services was noted to improve cost reduction within the supply chains as well as service quality which as a result guaranteed stakeholder satisfaction. Most of these deduced performance attributes are recognized as some of the key indicators to an effective supply chain.

While studying economic perspective of outsourcing of property management firms on public properties, Lam (2012) found that despite high transaction costs, outsourcing may result in a significant net cost reductions as well as improving quality of service. They further noted that competition in the market and monitoring transaction cost are important forces in influencing the cost of production and quality of performance. In conclusion, property service market with its associated competition can improve the economic benefits of outsourcing while significantly impacting positively on the production efficiency and quality of performance.

Kamah (2012) observed that the level of outsourcing among mobile enterprises was substantially associated with great performance features such as responsive operation

systems, responsive logistics processes, responsive supplier networks, and better competitive advantage. The researcher noted that the main influence came from responsive supplier network while the least response came from responsive operation system. The study also established that the supply chains of the companies were highly responsive to customers' changing needs, logistical responsiveness and supplier network responsiveness.

According to Mogere (2015), the supply chain performance of Kenyan cement manufacturing companies was impacted by the outsourcing of cleaning, catering, IT, customer service, security guards, laundry, and transportation and logistics. Most respondents (91.89 percent) agreed that service outsourcing has an influence on supply chain performance, and that service outsourcing adds to supply chain performance through enhancing supplier networks.. Ngetich (2014) also while studying the impact of outsourcing on supply chain performance of medical supply agencies found a positive relationship. Outsourcing allowed the company to better concentrate on its core business, resulting in timely supply of pharmaceuticals, decreased customer demand uncertainty, and enhanced efficiency in responding to customer wants, as well as lower inventory levels and stock outs.

## **2.5 Summary of Literature Review and Research Gap**

The paper has discussed outsourcing in three theoretical perspectives; competency theory, agency theory and resource based view. Understanding the link between outsourcing and operational performance is a goal of these theories. Most firms now

outsource their business functions, materials or services in efforts to improve operational performance and according to Ikediashi et al. (2014), minimizing cost, focus on core competence, growth and flexibility comes top as main drivers making strategic outsourcing decisions, with cost efficiency coming top as a driver for outsourcing.

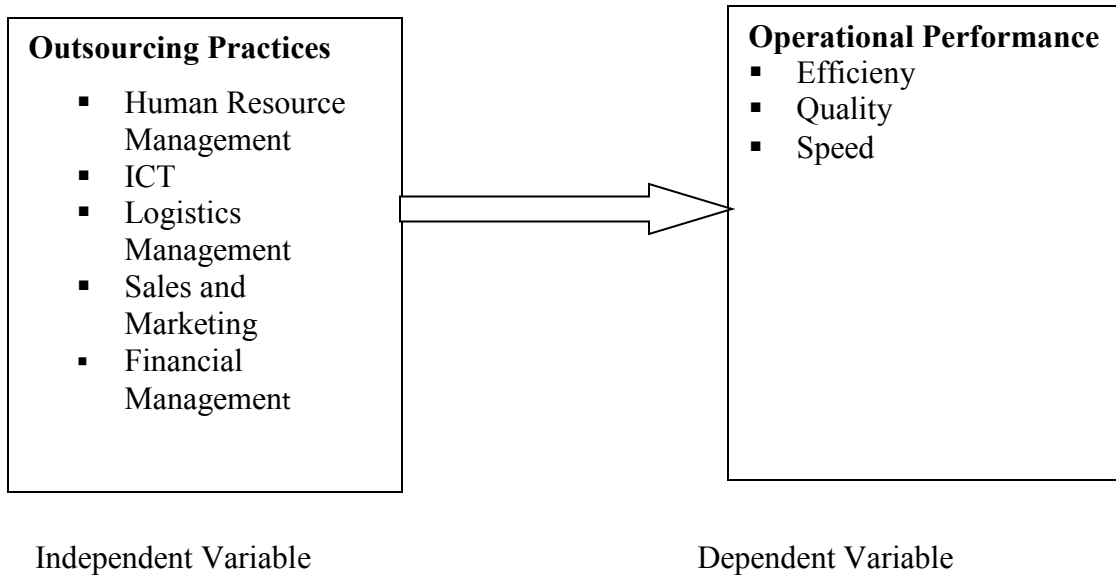
Commercial State Corporation in Kenya has seen a tremendous growth towards used of outsourcing as a strategy and review of a firm's capabilities and resources comes in handy for it to cope with this trend (Lam, 2012). The adoption of outsourcing is a strategy brings with it the ability for firms to acquire new skills and innovativeness which are significant in competing in the dynamic global market. This increasing trend puts pressure on most firms to outsource, although the benefit of outsourcing is directly related to the type of activity outsourced. (Nyameboame & Abubaker, 2017). Benefits of outsourcing can only be realized if the associated risks are properly identified and reduced, as outsourcing can come with many hidden costs that may negatively influence the operational performance.

## **2.6 Conceptual Model**

Commercial State Corporation operations performance is the dependent variable in this inquiry, whereas outsourcing stock practices are the independent variables. Figure 2.1 illustrates the conceptual links between the independent and dependent variables.



**Figure 2.1: Conceptual Framework**



Source: Researcher (2019)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains how the research was carried out. In this section, you'll find information about the study technique, population being examined, data collection, and data analysis. The techniques for analyzing and presenting the data collected are also discussed.

#### **3.2 Research Design**

Descriptive cross-sectional research was used to assess how outsourcing affected operational performance. Accurate and exact descriptions of occurrences in a well-planned and meticulous way are necessary for the design to be acceptable. Descriptive research designs help in the identification of the where, what, who, when and how of phenomena. Using the descriptive research technique, researchers were able to establish how the numerous independent variables were linked to the study's primary dependent variable.

#### **3.3 Population of the Study**

To draw conclusions about a set of items by comparing their shared traits is the definition of a population (Cooper & Schindler, 2006). The study's sample included on thirty-one (31) commercial state corporation in Kenya, as presented by Kenya inspectorate of state corporations (appendix II). Cooper and Schindler (2007), state that a census is

appropriate where a minor population and essential where the elements remain unattended too. With a small population and 31 commercial state companies in Kenya, a census is appropriate since the state corporations are often appraised with some degree of accuracy.

### **3.4 Data Collection**

The research relies on information gathered via the distribution of a questionnaire to participants.. The first section of the questionnaire collects data about the organization's characteristics. Second, was outsourcing, followed by operation performance. A good questionnaire is a critical method to come up with a wide variety of information from a large sample size which is easier to analyze (Kothari, 2011). Operations managers, warehouse managers, and supply chain managers, or their equivalents, were consulted for this information, as they are regarded to be aware about outsourcing services and the operational activities of commercial state firms. The research targets to administer 62 questionnaires, two questionnaires in each firm of study.

### **3.5 Data Analysis**

A review of the questionnaire's most important data will be conducted. Data will be input into SPSS and analyzed using descriptive and inferential statistics once it has been coded. Questionnaires was revised for consistency after data collection to be considered complete. Editing, tabulation, and coding were used to clean up the data and identify any discrepancies in the replies, as well as to enter particular numerical numbers for future analysis. Descriptive statistics will be used to examine the data which will include central

tendency measurements (mean) and dispersion measures (variance and standard deviation). The data were shown using pie charts and bar graphs. According to the multiple linear regression model provided below, the association between the variables was established:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

Y=Operational performance

$\beta_{ij}$ =Regression Coefficients

X1=Human resource management

X2=Information communication technology

X3=Logistics management

X4=Sales and marketing

X6=Financial management

$\epsilon$ =Error term

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The findings were provided in the chapter, together with their interpretation and discussion in light of the study's aim. It's covered in great length in this chapter. Chapters 1 and 2 of the review were dedicated to discussing the results and comparing them to other studies that have been published. Research was conducted to examine the effect of outsourcing on operational performance in a commercial state-owned enterprise in Kenya.

#### **4.2 Response Rate**

Fifty five (55) of the 62 questionnaires received were returned for data processing, which resulted in a response rate of 88%. The findings support Mugenda and Mugenda's (2013) assertion that rates higher than 50% are acceptable in analyses. Babbie (2010), on the other hand, regards a return rate of 60% to be acceptable, and a return rate of 70 as exceptional. The findings were sufficient for data analysis. As a result of the adequate response rate, the researcher proceeded with analyses of data.

#### **4.3 Demographic Features of Respondents**

Demographics was defined as the collecting of information about a certain population.

The study's demographic information was useful in revealing the intrinsic dynamics that existed within the study's population. It sought details on the gender, age, length of service in the organization and education level.

#### 4.3.1 Gender of the Respondents

According to Table 4.1, participants were allowed to provide information concerning their gender to the researchers.

**Table 4.1: Gender of the Respondents**

<b>Class</b>	<b>Frequency</b>	<b>Percentage</b>
Male	40	72.7
Female	15	27.3
<b>Total</b>	<b>55</b>	<b>100</b>

Those who answered the survey questions were mostly male (72.7 percent), with females accounting for 27.3 percent of the total. According to the statistics, the vast majority of respondents who work in commercial state businesses are males, showing that men outnumber women in government positions in general. Males occupy the majority of senior government jobs due to their dominance in managerial roles, which is not acceptable when considering the requirement for equality and may imply that national ministries are skewed in terms of management, according to Aleke (2013).

### 4.3.2 Age bracket

In this section of the questionnaire, respondents were asked to specify their age. Table 4.2 shows the results of the study.

**Table 4.2: Age Bracket**

Age bracket	Frequency	Percent
20-30 years	10	18.1
30-40 years	25	45.5
40 and above years	20	36.4
Total	55	100.0

There were 45.5 percent of the respondents who were between the ages of 30 to 40, and 30.7% of the respondents who were above the age of 40. According to the survey, 18.1% of those surveyed were between the ages of 20 and 30 years. Many of those who responded were younger than 50 years old, which means they had more time to devote to their careers. state-owned business enterprises. This implies that commercial state corporations is seen as favourable by people who are already established in their career, that is, the 30 to 45-year-old bracket. According to Mwende (2013), the majority of senior business managers are above the age of 50, and fewer young people hold leadership positions.

### 4.3.3 Level of Education

There was a need for participants to identify their highest educational attainment level. Respondent competence is regarded to be directly linked to one's educational level, and people with a greater degree of education are more likely to be able to correctly answer the questions given. Table 4.3 summarizes the findings.

**Table 4.3: Level of Education**

Years	Frequency	Percentage
Undergraduate	20	36.6
Masters	25	45.5
Post-Graduate	10	18.1
Total	55	100.0

According to the data, the majority of respondents (45.5%) have a master's degree, 36.6 percent have an undergraduate degree, and 18.1 percent have a postgraduate degree. This means that, since all of the respondents had a university degree, they might be considered competent about the research topic and so beneficial to the study. This demonstrates that the majority of responders have completed a university degree and hence possess a wealth of market expertise. Managers of the national government were better educated than their peers, according to Wanyama (2013). Many people wanted to finish their education so they could keep up with a rapidly changing job market.



#### **4.4 The Extent of Outsourcing by Commercial State Corporations in Nairobi, Kenya**

This section provides the results of first objective which was to establish the extent to which commercial state firms in Nairobi, Kenya, outsource their work. Previously, the results of this goal were discussed. There were a number of different services that were put to the test throughout this evaluation, including human resources, information technology, sales and marketing, logistics, and finance. On a scale of 1 to 5, respondents were asked to indicate how much of these operations they have outsourced, with 1 indicating no outsourcing and 5 indicating total outsourcing. 1 represented Not at all, 2 for Small extent, 3 for Moderate extent, 4 for Great extent and 5 for Very great extent.

##### **4.4.1 Services Outsourced by Commercial State Corporations in Nairobi, Kenya**

When asked if their various Commercial state companies in Nairobi outsourced the aforementioned functions, the participants' answers varied widely. Table 4.4 summarizes the results of the study.

**Table 4.4 The Extent of Outsourcing by Commercial state corporations**

Services outsourced	Frequency	Percentage
Information communication technology	31	56.4
Human resource management	16	29.1
Sales and marketing	25	45.5
Logistics management	37	67.3
Financial management	7	12.7

According to table 4.5, 67.3 percent of respondents outsourced logistics management and 56.4 percent of respondents outsourced human resources management, sales and marketing were outsourced by 45.5% of the respondents, ICT services were outsourced at 29.1% and financial management were 12.7%. Therefor the findings indicate that most commercial state corporations in Kenya outsource logistic management services followed by human resource management, while financial management was the least outsourced.

#### 4.4.2 Human Resource Management

Survey participants were asked to rate their level of agreement or disagreement on a four-point scale. Table 4.5 shows this.

**Table 4.5: Human Resource Management**

Human Resource Management	Mean	SD
Staffing and recruiting	3.84	.688
Incorporate other businesses into the training of your employees	4.21	.713
Use third-party organizations to evaluate job performance	3.89	.737
External companies are engaged in the provision of administrative services	4.53	.513
Overall	4.23	.523

By a 4.53 mean and 0.513 standard deviation, respondents highly supported the employment of external corporations to provide administrative functions. With a mean of 4.21 and standard deviation of .713, utilize external businesses to educate personnel. By a 4.21 mean and 0.713 standard deviation suggest that external businesses should be used to teach staff. As shown by a 3.89 mean and 0.737 standard deviation, external companies may be used for job assessment. Overall, recruiting and staffing are seen to be important, with a 3.84 mean and 0.68 standard deviation. Human resource management outsourcing is mostly motivated by a desire to reduce HR costs since the total mean of human resources was 4.04 at modest extent. As Roberts, (2001) has shown, increasing competition in the marketplaces, combined with downsizing, implies that HR departments attempt to provide value for the company.

#### **4.4.2 Information Communication Technology**

According to a set of five assertions concerning ICT, Participant were prompted to rate their degree of agreement with every of the statements presented to them. Table 4.6 depicts the outcome.

**Table 4.6: Information Communication Technology**

Information Communication Technology	Mean	SD
External companies are hired to supply the company with a management system	4.43	0.96
Maintaining software with the aid of outside service providers	4.66	.733
Use other companies to provide software like Oracle and SAP that is employed in the operations of the organization	4.21	.809
Involvement of outside organizations in the training of IT employees	4.00	.816
Overall	4.43	.456

Based on the data, respondents strongly agreed that the company should engage external organizations to offer its information system, by a 4.43 mean and 0.96 standard deviation. By a 4.66 mean and 0.733 standard deviation, external service providers were used to offer software maintenance. In order to provide software with a 4.12 as mean and 0.678 as standard deviation, use external companies. A mean of 4.11 with an SD of 0.809 may be achieved by using external companies to provide software. By a 4.00 as mean and 0.816 standard deviation indicates that vast majority of participants support using external organizations to teach employees on ICT concerns. This implies that information technology services like data management comes in handy in property management. Historically, information on property management was stored on papers, files and in employees' minds. This finding agree with Fong & Lee, (2009) that there is need for firms to adopt new data management technologies to enhance handling of information.

### 4.4.3 Logistics Management

Participants were provided with five assertions concerning logistics management, and when asked how much they agreed with each of the statements, they responded with a degree of agreement. Table 4.7 shows the results.

**Table 4.7: Logistics Management**

Logistics Management	Mean	SDV
The use of external organizations for warehouse and storing	4.63	.487
Utilize external companies for product transportation.	4.60	.493
In order to manage product inventories, external companies are used	4.57	.502
External organizations are hired to oversee all aspects of the distribution process	4.54	.543
Overall	4.59	0.636

Table 47 showed that the majority of respondents agreed with the employment of external enterprises in warehousing and storage, with a 4.63 mean and 0.487 standard deviation. According to the study, external businesses are used to transport items, with a 4.60 mean and 0.493 standard deviation. Finally, the usage of external businesses to handle all distribution operations as demonstrated by a mean of 4.54 and SD.543 shows the employment of external firms for inventory management. Finally, it was evident 4.59 was overall mean and 0.630 standard deviation. This suggests that corporate state companies are using logistics services for the external storage and administration of their

warehouse inventories. Managers prefer to outsource logistical operations to improve their organizations' performance, as stated by Magutu et al. (2013).

#### 4.4.4 Sales and Marketing

Each participant was asked to indicate how much they concurred or disapproved with each of five assertions about sales and marketing was determined. The findings of the investigation are shown in Table 4.8.

**Table 4.8: Sales and Marketing**

Sales and Marketing	Mean	SD
Provide after-sale assistance to customers through contracting out to third-party companies.	4.30	.631
Utilization of third-party firms for the promotion of a company's services	4.42	.658
External businesses are used to promote the services of the company.	3.70	.597
Outsourced sales support provided by other companies	4.45	.643
Overall	4.32	0.636

With a 4.45 mean and 0.636 standard deviation, the results reveal that the majority of respondents support the employment of external businesses to offer sales services. However, the employment of outside companies to do sales promotion with a 4.42 mean and 0.658 standard deviation was realized. Use outside firms to publicize the firm's

services with a 4.70 mean and 0.597 standard deviation. The overall observation was supported by the mean value calculated of 4.32 and 0.636 as SD indicated a modest degree of overall mean. This indicates that sales and marketing services are outsourced to offer sales services and to carry out sales promotion. According to William, (2012), outsourcing may help companies achieve better sales results.

#### 4.4.5 Financial Management

Participants were provided with five assertions concerning financial management, and they were asked to identify their level of agreement with each of the claims. Table 4.9 depicts the outcome.

**Table 4.9: Financial Management**

Financial Management	Mean	SD
In the auditing process, external companies are used.	3.05	.705
The use of third-party services to file tax returns	3.11	.809
External services are being used to offer salary payment services	4.42	.756
The use of third-party service providers in the provision of financial operations for the employees	4.44	.767
Overall	3.94	0.766

The findings showed that the majority of those surveyed were in favor of hiring outside auditors, by a 4.44 mean and 0.767 standard deviation. Sstandard deviation of.756 indicates the usage of external enterprises to fill returns, with a mean of 4.42. On the other hand, there is a 3.05 as mean and 0.705 as standard deviation for the usage of external providers to offer salary payment services. Staff financial functions were provided by external service providers with a 4.44 as mean and 0.767 standard deviation. Finally, the total mean of finance management was 3.94, which indicates that the state businesses outsource financial services to aid with salary payment and audit services. This finding agrees with Kakouris (2006), accounting services that may be outsourced include bookkeeping and accounting processes that normally involves a wide variety of processes. This may include day to day operations such as accounts payables, accounts receivables and payroll reports, to operations that require long term planning and execution such as taxation, financial planning and budgetary control.

#### **4.5 Operational Performance**

Organizations value operational performance because it improves production efficiency, develops high-quality goods, increases customer satisfaction, and boosts revenue and profit margins. Product and service quality is directly related to how well a company's operations execute in terms of both efficiency and effectiveness, and how well those outcomes meet the needs and expectations of its customers. They were given five assertions on operational performance and prompted to indicate their degree of agreement with each one. Table 4.12 below shows the results of the analysis.



**Table 4.10: Operational Performance**

Efficiency		
	Mean	SD
Inventory turns have been enhanced at the company		
	4.63	0.487
The company has increased the overall efficiency of its equipment		
	4.56	0.467
Enhanced throughput has been achieved by the company.		
	4.60	0.493
The company has increased the usage of its available capacity		
	4.57	0.498
Mean		
	4.56	0.498
Quality		
	Mean	SD
The firm has greatly reduced the downtime rate		
	4.57	0.554
The firm has reduced the supplier defect rate		
	4.56	0.528
The firm has improved the percentage of first pass yield		
	4.23	0.567
The firm has reduced the re-work rate		
	4.56	0.555
Mean		
	4.54	0.551
Speed		
	Mean	SD

An aggregate mean of 4.53(SD= 0.545) was realised postulating operational performance of state corporations in Nairobi County, Kenya has greatly improved over the years. The most improved performance parameters were efficiency at a By 4.56 as mean and 0.498 standard deviation followed by quality at a 4.54 mean and 0.551 standard deviation, lastly speed with a 4.49 mean and 0.586 standard deviation. Thus, operational performance matters to firms because it promotes production efficiency; develops high-quality goods; improves customer satisfaction; and generates better revenue and profits. Hwang, Han, Jun & Park, (2014) concurred with the results. The management of organizational processes relies heavily on operational performance, and this performance is critical in laying the groundwork for a company's long-term competitiveness..

#### **4.6 Relationship Between outsourcing and Operational Performance**

R<sup>2</sup> (statistical measure) was used to compute this coefficient of determination. When determining the link between predictor and responder variables, correlation analysis was utilized. The correlation coefficient is a measure of the strength of a link between two sets of independent continuous numeric data (Crossman, 2013). the direction (positive/negative) and strength (ranges from -1 to +1) of the two variables are calculated using Pearson correlation analysis, as shown in Table 4.10.

##### **4.6.1 Model Summary**

Table 4.11 below displays the outcomes.

**Table 4.11: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.817 <sup>a</sup>	.668	.663	1.19346

a. Predictors: (Constant), Human Resource Management, Logistics Management, Cleaning Services, Finance Management, Sales and Marketing, Information Communication Technology, Security Services

In Table 4.13 at significance level of 0.005, the outcomes show that R and R<sup>2</sup> were 0.817 and 0.668 respectively. R=0.817 reveals that outsourcing and operational performance have a good link. Variation in operational performance was accounted for by 66.8% of model variables and 33.2 % by additional factors that were not included in the model.

#### **4.6.2 Analysis of Variance**

ANOVA was used by the researcher to choose the suitable regression model for the data.

According to Table 4.12

**Table 4.12: Analysis of Variance (ANOVAa)**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	11.236	7	3.745	11.583	.000b
Residual 1	21.341	47	.323		
<b>Total</b>	<b>32.577</b>	<b>54</b>			

a. Dependent Variable: Operational Performance

b. Predictors: (Constant), a. Predictors: (Constant), Human Resource Management, Logistics Management, Finance Management, Sales and Marketing, Information Communication Technology,

Table 4.13 displays the ANOVA findings. According to the table in this publication, the f statistic is 11.583 at a 5% significance level. P values of 0.000 <0.05 are considered significant. Operational performance may be predicted by its outsourcing indicators, according to these research.

The The presentation in Table 4.15 shows unstandardized coefficients, standardized coefficients, t statistics and significant values.

**Table 4.13: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B ( $\beta$ )	Std. Error	Beta ( $\beta$ )		
(Constant)	.179	.756		.236	.817
Information Technology	.149	.239	.165	.623	.543
Human resource management	.247	.159	.272	1.554	.012
Sales and marketing	.239	.125	.305	1.906	.037
Logistics management	.200	.273	.126	.733	.476
Financial management	.257	.261	.161	-.252	.002

a. Dependent Variable: Operational Performance

In Table 4.15, despite differing degrees of significance, all factors demonstrated positive predictive power. A positive and statistically significant influence of ICT on operational performance (p=0.543) was found in the data. A unitary change in ICT would result in a

significant operational performance change of 0.165 units in the same direction, according to the previous equation. A favorable and statistically significant influence on operational performance was found for human resource management ( $\beta=0.272$ ,  $p=0.012$ ). For example, if all other variables are maintained constant, a unitary change in human resource management would lead to an operational performance change of 0.272% in the same direction. A positive and statistically significant influence on operational performance was also had by sales and marketing ( $\beta = 0.305$ ,  $p=0.037$ ). A unitary change in sales and marketing would result in a significant change in operational performance of 0.305 units, according to the regression equation when all other variables are taken into account. Operational performance ( $\beta = 0.126$ ,  $p = 0.476$ ) was positively and statistically significantly affected by logistics management. An operational performance change of 0.126 units in the same direction would be predicted by the regression equation, providing all other parameters are maintained constant. When it comes to outsourcing financial management services, a 0.257% increase in operational performance may be expected.

The regression equation looked like this:

$$Y = 0.179 + 0.165X_1 + 0.272X_2 + 0.305X_3 + 0.126X_4 + 0.161X_5$$

Where:

Y = Operational Performance

X<sub>1</sub> = Information communication technology

X<sub>2</sub> = Human resource management

X<sub>3</sub> = Sales and marketing

X4 = Logistics management

X5= Financial management

In general, the model demonstrates that outsourcing has a negative influence on operational performance, with the exception of ICT, which has a p-value of 0.543, and that each variable predicts operational performance positively (p-value =0.005). However, operational success was greatly affected by human resource management, logistical management, financial management, and information and communications technology.

**Table 4.14: Correlation Analysis**

		ICT	HR	SM	LO	FM	OP
ICT	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	55					
HR-Human Resource	Pearson Correlation	.590**	1				
	Sig. (2-tailed)	.01					
	N	55	55				
SM- Sales and Marketing	Pearson Correlation	.523*	.431*	1			
	Sig. (2-tailed)	.05	.05				
	N	55	55	55			
LO- Logistics	Pearson Correlation	.583**	.464*	.141*	1		
	Sig. (2-tailed)	.01	.05	.05			
	N	55	55	55	55		
FM-Financial Management	Pearson Correlation	.650**	.173*	.324**	.215*	1	
	Sig. (2-tailed)	.01	.05	.01	.05		
	N	55	55	55	55	55	
OP-operational performance	Pearson Correlation	.783**	.620**	.638**	.466*	.625**	1
	Sig. (2-tailed)	.01	.01	.01	.05	.01	
	N	55	55	55	55	55	1

**\*\***. Correlation is significant at the 0.01 level (2-tailed).

**\***. Correlation is significant at the 0.05 level (2-tailed).

According to correlation values of 0.783% and significance levels of 0.01, operational performance is linked to information technology. At a significance level of 0.05, the correlation between operational performance and human resource utilization is statistically significant ( $r=0.620$ ). There was a Pearson's correlation value of 0.638 and a significance level of 0.01, as well. Logistics had an insignificant positive link with operational effectiveness at a Pearson's correlation value of 0.4666 and a significance level of 0.05. Using a p-value of 0.05, financial management shows a strong correlate with operational performance.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION ANDRECOMMENDATIONS**

#### **5.1 Introduction**

Research at Nairobi, Kenya's Commercial State Corporations focused on the influence of outsourcing on operational performance. The results of the research, the conclusions reached, and the policy and practice suggestions are all summarized in this part. Moreover, it identifies any shortcomings and makes recommendations for future research. In the chapter, it was also advised that more research be done in areas where there was opportunity to broaden the scope of the present study to include firms from other industries in addition to the ones covered by it. In addition to providing a significant contribution to the corpus of information on the subject, this would also assist policymakers in their decision-making processes.

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

The study's goal was to find out how outsourcing affected the operational performance of Kenyan commercial state firms. The majority of respondents that work in commercial state enterprises were male, showing that government offices are dominated by males. According to the poll results, two-thirds of individuals who took part were under 50 years of age, suggesting that they had more years of experience working in commercial state firms. This suggests that the 30 to 45-year-old age group favors commercial state businesses, indicating that they are already established in their careers. Finally, all of the participants who participated in the poll were university-educated, making them

invaluable to the research. According to this data, the great majority of respondents had a college degree, indicating that they had substantial industry knowledge and competence.

Identifying the services that commercial state firms in Nairobi, Kenya often outsource to third-party suppliers was one of the key aims of this study. According to the findings of the survey, the most often outsourced services were information and communications technology (ICT), logistical management services, human resources, marketing and sales, and financial management. The biggest amount of money was spent on outsourcing logistics and human resource services. However, according to the findings of the research, financial management and marketing and sales were not routinely outsourced by commercial state businesses because they were only outsourced to a limited level..

Secondly, the research looked at the influence of outsourcing on operational performance in Nairobi, Kenya's commercial firms. ICT outsourcing shows that the corporation is looking to save money wherever possible. There is a higher degree of internal control and management of human resources and financial resources than there is external outsourcing. HR and financial operations are assumed to be controllable by recruiting skilled people. There is strong evidence that commercial state enterprises employ logistics services for warehouses located outside of their facilities, as shown by this outsourcing of logistics management.

Outsourcing was shown to be associated with improved operational outcomes, according to the research. Due to enhanced employee productivity, reduced operating costs, and

savings on personnel recruitment expenses, service outsourcing helps commercial state businesses improve their operational performance while also improving quality and timely delivery.

### **5.3 Conclusion**

The research aimed to identify the most prevalent services that commercial state enterprises in Nairobi, Kenya, outsource. Research shows that commercial State Corporations outsource the most IT services. According to the study's results, outsourcing had a beneficial impact on operational performance. Due to the enhanced level of productivity, better staff productivity, lower operating expenses, savings on employing personnel and on-time delivery of services, service outsourcing increases state-owned commercial organizations' operational performance.

The study's second goal was to investigate the impact of outsourcing on operational performance. For this study, the goal was to determine the services that commercial state enterprises in Nairobi outsource on a regular basis. The investigation came to the conclusion that commercial state businesses outsource ICT and logistics to the greatest degree possible. The research also came to the conclusion that commercial state enterprises outsource just a limited portion of their financial management and human resource responsibilities. Sales and marketing are examples of services that are outsourced to a modest degree.

Service outsourcing improves the operational performance of commercial state enterprises in the following ways: higher production, better staff productivity, reduced operating expenses, savings on recruiting costs, timeliness, and enhanced quality.

#### **5.4 Recommendations**

Firstly, commercial state companies in Kenya should aim to enhance customer service by outsourcing important operations. The outsourcing of critical services guarantees that each element is properly cared for and there is more focus on the services delivery. In Kenya, the amount to which commercial state companies expect to improve their operational performance in areas where service delivery falls short owing to laxity determines the extent to which they would outsource services.

Second, commercial state corporations should adopt the outsourcing approach to service delivery. Some services are very key to running of the commercial state corporations systems, services such as legal insurance computer and software and logistics are very essential and when anything goes wrong, the consequences may be felt across the whole company.

Finally, it is recommended that commercial state businesses thoroughly assess their outsourcing plans to outsource functions that are not critical to the operation. In order to save money on non-specialized services, you need to follow these instructions. The research also recommended that organizations only outsource services that are critical

and need the expertise of professionals. Commercial state firms should prioritize ICT services, which are on the edge of fierce global competition, according to a new research.

### **5.5 Limitations of Study**

Lack of adequate cooperation, as much as the researcher was able to collect all the required information it was evident that some registrars were hesitant to provide the information as they were too busy, in that case some of the questionnaire were not filled on the spot but had to be left behind and were to be collected later.

Some of the respondents were afraid that they would be victimized since the information being sought was confidential. Some of respondents were unwilling to provide information as their busy schedule was being diverted hence time wasting this made the accuracy of the data to reduce. Most commercial state corporations treat their data very confidential this instilled some fear of their own privacy. However, the confidentiality was assured to respondents that no data would leak and no employee was to be linked.

Another problem was the amount of time it took to gather the data. Due to time constraints, several respondents were not able to participate in the study because of their schedules. The researcher made time for follow-ups to verify that the surveys were returned in a timely manner, considering this obstacle.

## **5.6 Areas for Future Research**

In order to better understand how outsourcing impacts commercial enterprises, more study is needed into how outsourcing affects various industries and the hurdles that may develop. More research should also be concentrated on understanding cost implications of outsourcing and ways of structuring outsourcing ventures that may lead to deeper insight and assist in decision making when high costs emerge as negative effects of outsourcing.

The research was unable to add individuals from other parts of the nation because of time and money restrictions. That's why we advocate doing the survey across many nations so that we can better understand how individual customers interact with the world around them in a variety of circumstances.

The study relied exclusively on primary data; however, secondary data sources such as those found in papers, websites, and regulatory agencies may also be used to supplement the findings. The results of the present research may then be approved or disapproved by these groups. The descriptive statistic and multiple regression techniques were utilized in this study; however, additional analytical methods such as factor loadings, clustering algorithms, and discriminant analysis might be applied in future research as well.

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## APPENDICES

### Appendix I. Questionnaire

This is a questionnaire for an academic study on outsourcing and operational performance of Commercial state corporations in Kenya. Kindly give the appropriate responses to the following questions.

#### SECTION A: GENERAL INFORMATION

1) What is your gender? (tick one) Male (  ) Female (  )

2) Age (tick one)

20 to 30 (  )

30 to 40 (  )

40 and above (  )

3) Highest level of education achieved.

No formal education [  ] Primary level [  ] Secondary level [  ] College level [  ] University level [  ]

**SECTION B: THE EXTENT OF OUTSOURCING PRACTICE**

Please indicate whether your firm has outsourced the following activities, by ticking either YES/NO.

<b>PRACTICE</b>	<b>YES</b>	<b>NO</b>
Information communication technology		
Human resource management		
Sales and marketing		
Logistics management		
Cleaning services		
Security services		
Financial management		

If YES, please rate on a scale of 1-5 the extent your organization has outsourced the above activities. Tick where appropriate. In the scale of 1-5 where 1= Noextent;2 = Little Extent; 3= Moderate Extent; 4= Large Extent and 5= Very Large Extent.

<b>Human Resource Management</b>	<b>No extent 1</b>	<b>Little extent 2</b>	<b>Moderate extent 3</b>	<b>Large extent 4</b>	<b>Very large extent 5</b>
Staffing and recruiting					
Incorporate other businesses into the training of your employees					
Use third – party organizations to evaluate job performance					
External companies are engaged in the provision of administrative services					
Information communication technology					
External companies are hired to supply the company with a					

management system					
Maintaining software with the aid of outside service providers					
Use other companies to provide software like oracle and SAP that is employed in the operations of the organizations					
Involvement of outside organizations in the training of IT employees					
Logistics management					
The use of external organizations for warehouse and storing					
Utilize external					

companies for product transportation					
In order to manage product inventories, external companies are used					
External organizations are hired to oversee all aspects of the distribution process					
Sales and marketing					
Provide after – sale assistance to customers through contracting out to third party companies					
External businesses are used to promote the services of the					

company					
Utilization of third party corporations for the promotion of a company's services					
Outsourced sales support provided by other companies					
Cleaning services					
Floor cleaning services provided by third party companies					
Companies laundry is cleaned by external providers that are hired on a contract basis					
Extensive use of outside service providers for					

general cleaning of the company's premises					
Security services					
Employing third party service providers to offer security at the firm's entrances and exits					
The use of third- party service providers in providing of inspection services at the entrance gates					
In order to ensure security to customers, external service providers are used					
Financial management					



In the auditing processes, external companies are used					
The use of third party services to file tax returns					
External services are being used to offer salary payment services					
The use of third party service providers in the provision of financial operations for the employees					

**Section C; operational performance**

To what extent have the listed operational performance measures been directly influenced by the firms adoption of outsourcing practices

<b>Human Resource Management</b>	<b>No extent 1</b>	<b>Little extent 2</b>	<b>Moderate extent 3</b>	<b>Large extent 4</b>	<b>Very large extent 5</b>
Inventory turns have been enhanced at the company.					
Enhanced throughput has been achieved by the company.					
The company has increased the usage of its available capacity.					
The company has increased the overall efficiency of its equipment					
Quality					
Reduced client rejections and returns have been achieved by the company.					
The rate of supplier defects has been lowered by the company.					
The firm has improved the percentage of first pass yield					
The firm has reduced the re-work rate					
Speed					
The firm has greatly reduced the					

downtime rate					
The firm has improved time to make changeovers					
The firm has improved on time delivery commitment					
The firm has improved availability time					

## ***Appendix II: Commercial State Corporations***

1. Agro-Chemicals and Food Company
  2. Chemelil Sugar Company
  3. East African Portland Cement Company
  4. Gilgil Telecommunications Industries
  5. Jomo Kenyatta Foundation
  6. Kenya Airports Authority
  7. Kenya Broadcasting Corporation
  8. Kenya Electricity Generating Company
  9. Kenya Literature Bureau
  10. Kenya Ordinance Factories Corporation
  11. Kenya Pipeline Company
  12. Kenya Ports Authority
  13. Kenya Power and Lighting Company
  14. Kenya Railways Corporation
  15. Kenya Civil Aviation Authority
  16. Kenya Safari Lodges and Hotels
  17. Kenya Seed Company Limited
  18. Kenya Wine Agencies
  19. Kenyatta International Convention Center
  20. National Cereals and Produce Board
  21. National Housing Corporation
  22. National Oil Corporation of Kenya
  23. National Water Conservation and Pipeline Corporation
  24. Numerical Machining Complex
  25. Nzoia Sugar Company
  26. Postal Corporation of Kenya
  27. Pyrethrum Board of Kenya
  28. School Equipment Production Unit
  29. South Nyanza Sugar Company
  30. Telkom Kenya Limited
  31. University of Nairobi Enterprises and Services Limited
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