AUTOMATED TELLER MACHINE SERVICES OUTSOURCING PRACTICES BY KENYAN BANKS

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BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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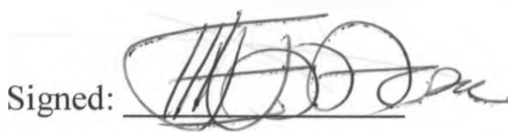
DECLARATION

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

Signed: Date: 2/11/2007

Mark Robert Mwangangi

This strategic management project has been submitted for examination with my approval as the university supervisor.

Signed:  Date: 5/11/2007

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DEDICATION

To my beloved Mum Katunge and my beloved Dad Mwangangi who supported me so keenly in my early stages of education and encouraged me all through to build interest and motivation in pursuing academic studies and develop professionally.

To my beloved wife and children for their patience, moral support, bearing with my absence and busy schedule during the period of study. To my Uncle Martin who was of great support and inspiration in the early stages of my education.

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ABSTRACT

The banking industry in Kenya has been struggling in a hypercompetitive environment since the days of economic market liberalization. In current years the competition has been extremely intense with each bank fighting for its survival against competitors who do not only want to remain cost effective, drive profit but also attract and retain customers. This has driven the banks to embrace information technology to reduce the pressure to operate efficiently and profitably , as well as to provide those services that are provided in the rest of the world as today's customer is no longer localized but globalized and his needs are no longer limited to his location. The Automated teller machine (ATM) has been one way in which the banks have embraced technology to provide better services to their customers. The deployment of ATMs has brought with itself challenges which were not apparent in the beginning, challenges like lack of skill, need for huge amounts of capital, lack of executive time to manage the ATM channel, security considerations and many others. These challenges have driven banks to look at outsourcing as one of the ways to mitigate these challenges.

The objective of this study was to highlight the ATM service outsourcing models used in Kenya and the challenges that Kenyan banks have faced when outsourcing these services. All the banks in Kenya were surveyed. The study highlights the practices and the challenges. In this study senior bank managers that is ATM managers and IT managers were targeted to give a representative response to the survey.

The survey revealed that several models are used in outsourcing of ATM services in Kenya, that there is no one prevalent model and that most of the banks own their own assets. The survey reveals that one of the major benefits the banks seek to achieve when outsourcing is to spur innovation followed closely by the need to

improve customer service. It further indicated that challenges that are considered of importance are loss of control and some of the services being considered too critical to outsource. The report indicates that employee resistance to outsourcing is not considered a serious challenge when making the outsourcing decisions.

Further research may be undertaken in Kenya on the subject of ATM services outsourcing to cover such areas as outsourcing failures, outsourcing risks, development of outsourcing partners and outsourcing partner selection.

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1.0 INTRODUCTION

1.1 Background

1.1.1 Outsourcing

Outsourcing (or contracting out) is often defined as the delegation of non-core operations or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. Outsourcing is a business decision that is often made to lower costs or focus on competencies. A related term, offshoring, means transferring work to another country, typically overseas. Offshoring is similar to outsourcing when companies hire overseas subcontractors, but differs when companies transfer work to the same company in another country (Dominguez, 2006).

According to Reuvid (2005) outsourcing arrangements like mergers and acquisitions are often large and complex, strategically and operationally important, and involve significant organizational strain but effective use of outsourcing can be a critical component in corporate success for many companies. Different activities are outsourced in different ways to achieve different objectives. Experience shows that, irrespective of what is outsourced, why and how, the key to success is collaboration. This must be fuelled by quality relationships between all parties, relationships based on clearly defined top down aligned goals and flexibility to meet changing needs. Collaboration is no longer just amicably working together but now it is about truly combining skills and strengths to accelerate the benefits of outsourcing for an organization's business. Succeeding is not easy and there are examples of public and private sector deals not delivering to expectations. Those that do succeed share three common attributes. These are clarity of expectations, an

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enduring and mutually advantageous relationship and agility to embrace change.

Outsourcing can achieve a wide spectrum of objectives ranging from doing the same things at a lower cost that is traditional outsourcing, to achieving new things in new ways in other words transformational outsourcing. If the vision is up front, with clear and achievable expectations, an outsourcing strategy can articulate the vision. One component of this strategy must be to fit the deal structure and the relationship to the objectives. The benefits including the reward structure must reflect the business goals, apportionment of risk and the desires of the relationship. Having a clear approach to governing the relationship mutually defined and widely accepted will act as an accelerator for success (Corbett, 2004).

There must also be built in flexibility and one eye on change. Change is inevitable in most cases of outsourcing. In fact outsourcing is itself a form of change for an organization and the arrangement needs to have an appropriate level of built in flexibility to ensure the service and relationship continually function efficiently. This is especially critical for transformational outsourcing, where the business change team, the new technology team and the service delivery team must be aligned in their objectives and approach (Gottschalk, 2006).

1.1.2 ATM Services

Automated teller machines (ATMs) are expensive to own and operate especially for banks with a limited branch network and human capital already stretched to capacity (Indian Banks Association (IBS-IBA), 2005). Kenyan banks have been struggling to balance the demands of increasing customer care touch points

while reducing the cost to serve. In particular ATMs continue to be an extremely important customer touch point to Kenya banks but also represent a significant cost. According to the IBS-IBA special report (2005), the need for external services providers who help reduce expenses and eliminate unnecessary capital cost while assuming the burden of ATM operations is therefore becoming paramount. Managing ATMs is becoming an increasingly complex task with each passing day with advanced services being offered. Banks have realized that the value of the ATM is not in its ownership but in its ability to provide customers with convenient access to their bank accounts. This has been one of the reasons for bankers to let external vendors handle the ATM channel.

There are other factors that also drive banks to ATM outsourcing. Such factors include transaction volume, operational complexity relating to network monitoring and maintenance, monitoring of performance both for onsite and offsite ATMs, cash replenishment and forecasting. Also management of the call centre, first and second level support functions and vendor relationship management are some of the areas that banks increasingly find better to outsource to third parties that have a credible and reliable service offering. Outsourcing helps banks to manage technology obsolescence, security and uptime more efficiently. Availability of expertise, optimal use of resources, proactive maintenance, and single point of contact, committed uptime and quicker implementation of technology upgrades, systematic reporting and ATM trained staff enables the bank to concentrate on its core business (IBS-IBA, 2005).

ATM outsourcing in Kenya can be broadly classified under three broad models. The first model is where the bank sets up its own ATMs network and manages it but outsources specific services like security, cash replenishment, network and switch management to third party service providers and suppliers. In this

model, vendor relationship management and uptime of the ATM network remains the responsibility of the bank. The second model stops just short of relinquishing the ownership. The bank owns the entire ATM infrastructure but outsources all the services including installation, creating the infrastructure, monitoring and call centre, maintaining the network as per predefined service level agreements, cash management and security. This model has many variants with each bank customizing the model to suit its requirements. It involves co-ordination with a host of suppliers with whom the bank may have maintenance contracts. The third model is by having a common shared network where the ownership of the network remains with the consortium of banks. In this case the cost of maintaining the infrastructure is shared and thus the initial setup cost per bank reduced.

1.1.3 Kenya Banking Industry

According to the Kenya Monthly Economic Review, July 2007, the banking sector remained stable in the first half of 2007, mainly due to prevailing favourable macroeconomic conditions. The quality of asset portfolio improved capital adequacy ratios which remained high. The sector also registered growth in deposits and profitability. Growth in deposits resulted from a significant inflow of remittances. Improved profitability resulted from increased income on loans, advances and increased volume of banking services that generated substantial fees and commission income. The number of financial institutions remained at 45 between June 2006 and June 2007, while the number of operating forex bureaus increased from 95 to 96 over the same period.

The banking sector total assets increased by Ksh 138.3 billion or 19.9 per cent from Ksh 695.1 billion as at June 2006 to Ksh 833.4 billion as at June 2007. The major assets were loans, advances and government securities which

constituted 50 percent and 22 per cent percent of total assets, respectively. Loans and advances, net of provisions stood at Ksh 417.5 billion in June 2007 compared to Ksh 362.0 billion in June 2006. Foreign currency loans and advances increased by 7.3 percent from Ksh 63.7 billion in June 2006 to Ksh 63.7 billion in June 2007. Despite an overall increase in aggregate loans and advances, the proportion of foreign currency loans to total loans declined from 18 percent in June 2006 to 16 percent in June 2007 mainly due to a more than proportionate increase in local currency loans. Foreign currency loans increased by 6.25 percent whereas local currency loans increased by 17.1 percent over the same period. Investment in Government securities rose by 26.1 per cent from Ksh 146.3 billion in June 2006 to Ksh 184.5 billion in June 2007 due to increased liquidity and government borrowing in the domestic market. Total deposit liabilities, including accrued interest, increased by Ksh 109 billion or 19 per cent from Ksh 573 billion in June 2006 to Ksh 682 billion in June 2007. Foreign currency deposits rose by 22.0 percent from Ksh 88.9 billion to Ksh 108.4 billion over the same period. This increase in deposit liabilities was attributed to external donor inflows, remittances by Kenyans living abroad and earnings from tourism and agricultural exports.

Capital and reserves of the banking sector increased by 20.1 per cent from Ksh 86.9 billion in 2006 to Ksh 104.4 billion in June 2007. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Risk weighted assets increased by 13.1 percent or Ksh 63.8 billion from Ksh 488.1 billion in June 2006 to Ksh 551.9 billion in June 2007. Similarly, total capital increased by 17.3 percent from Ksh 81.6 billion to Ksh 95.7 billion in June 2007. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio increased from 16.7 per cent in June 2006 to 17.3 per cent in June 2007 and was above the minimum statutory requirement of 12 per cent.

The banking sector's pre-tax profit for the six months period ending June 30, 2007 stood at Ksh 16.3 billion compared to Ksh 12.6 billion in June 2006. The improved profitability was attributed to an increase in interest income on loans and advances and government securities and non-funded income. Total expenses increased by 7.4 percent from Ksh 32.4 billion in June 2006 to Ksh 34.8 billion in June 2007. Loan loss provision for the period was Ksh 2.8 billion compared with Ksh 3.7 billion expensed over a similar period in 2006. The decline in loan loss provisions is attributed to improvement in risk management by institutions and better economic conditions. Salaries and wages expenses increased from Ksh 9.6 billion in June 2006 to Ksh 11.3 billion in June 2007. Annualized return on assets rose from 2.8 per cent to 3.8 per cent in 2007. At the same time, return on shareholders funds increased from 28.9 per cent to 37.6 per cent over the same period.

The banking sector has witnessed stiff competition forcing banks to re-package their services and products to satisfy the needs of the customers and retain their market share. Institutions are therefore increasingly offering e-banking services for both residents and non-residents. Islamic banking has emerged as a new product. In response to this some of the institutions have redefined their business strategies while leveraging on innovative and affordable products to capture this new market segment. In the long run the success and soundness of the financial institutions and the entire sector will depend on the achievement of operational efficiency through the application of prudential practices, good corporate governance and robust risk management frameworks. Improving access to financial services and products for many more Kenyan households and small businesses is critical given that by December 2005 there were only 2,400,459 bank accounts and 666 Automated Teller Machines.

1.2 Statement of the Problem

According to Corbett (2004) organizations cannot stay competitive in today's rapidly changing global economy by relying solely on their own resources. Outsourcing is a necessary response to today's hypercompetitive environment. In this environment, no organization can afford the level of investment required to be best-in-class across its entire operation, yet none can afford to be anything less. Through outsourcing, organizations solve this dilemma by focusing their internal resources on the activities that provide them a unique competitive advantage.

Kenyan financial institutions are continuously facing pressure to cut costs and boost margins in order to remain profitable in the hypercompetitive environment. The banks have had to deploy ATMs in order to create convenience for the customer and for customer retention. This has brought about the complexity of managing the ATM service to the focus of the banks. In some of the cases the banks have found out that they do not have the skill and knowledge to manage the ATMs were as in other cases the bank does not have the technology or infrastructure. The banks also have discovered that by managing ATM operations they are tying their internal resources down to managing technology where as their expertise is in banking. The banks have also found that competitive advantage is not brought about by running of the ATM operations but by achieving a wider coverage, a high uptime and improvement of their portfolio of products. They are therefore discovering that outsourcing their ATM network can bring improved performance and a reduction in operational costs. The key to making the ATM outsourcing relationship successful and profitable is knowing what to look for in the outsourcing relationship, choosing the right service provider, measuring the

outsourcing return on investment and maximizing value of the outsourcing relationship.

Similar studies on outsourcing carried out by Kirui (2001), focused on outsourcing of logistic activities in a case study of British American Tobacco. Nyarandi (2002) studied implementation of outsourcing strategy in private hospitals in Nairobi. Chanzu (2002) made a survey of business outsourcing practices among private manufacturing companies in Nairobi while Kipsang (2003) focused on outsourcing information technology by commercial banks in Kenya.

This study sought to answer the following questions; how have Kenyan banks embraced outsourcing of ATM services and what challenges are they facing ?

1.3 Objectives of the Study

This study had two objectives:

- To establish the ATM services outsourcing practices by Kenyan banks.
- To determine the factors that influence ATM services outsourcing practices by Kenyan banks.

1.4 Significance of the Study

The study is of use to various parties. First to the banking industry it serves as a guideline in making a decision to outsource ATM services to achieve maximum value. To the academician and researcher it adds to the already existing knowledge of outsourcing by shading light on this very pertinent subject especially with the mass deployment of ATMs in Kenya and provide a basis for

further research in the subject. To the entrepreneur and consultant, this study serves as a baseline when investing or advising firms either on outsourcing of ATM services or on the start up of companies to fill the gaps that exists in the ATM channel of service delivery.

1.5 Scope of the Study

All banks in Kenya have their headquarters in Nairobi. The research study was focused on surveying respondents in Nairobi only as this is where the decision makers are located. The study was conducted using primary data that was collected through a structured questionnaire. Senior bank managers were requested to complete the questionnaires as they are involved in both the strategy setting in the organizations as well as implementation. It involved collecting primary data from the respondents to uncover the following areas; the ATM services that are outsourced, the extent of outsourcing these services and the limitation that prevent banks from outsourcing the services.

2.0 LITERATURE REVIEW

2.1 The Concept of Strategy

Strategy has been defined in different ways by the many writers on this subject. According to Chandler (1962) strategy is the determination of the basic long-term goals and objectives of an enterprise. Child (1972) defines strategy as the adoption of courses of action and the allocation of resources necessary for carrying out these goals or strategy is a set of fundamental or critical choices about the ends and means of a business.

Strategy is concerned with the long-term direction and scope of an organization. It is also crucially concerned with how the organization positions itself with regard to the environment and in particular to its competitors. It is concerned with establishing competitive advantage, ideally sustainable over time, not by technical maneuvering, but by taking an overall long-term perspective (Faulkner and Johnson, 1992). Strategy is the direction and scope of an organization over the longer term ideally, which matches its resources to its changing environment and in particular, to its markets, customers and clients to meet stakeholder expectations (Johnson and Scholes, 1993).

Kay (1999) states that business strategy is concerned with the match between the internal capabilities of the company and its external environment. According to Richardson, et al (1999) a strategy whether it is a human resource strategy or any other kind of management strategy must have two key elements. First there must be strategic objectives (i.e. things the strategy is supposed to achieve) and second there must be a plan of action (i.e. the means by which it is proposed that the objectives will be met). Purcell (1999) defines

strategy as the emphasis on focused actions that differentiate the firm from its competitors

Mintzberg (1994) offered five conceptual equivalents of strategy as a plan a guide or course of action into the future. These are; a ploy which is a specific maneuver intended to outwit an opponent or a competitor, a position determination of particular products in particular markets, a perspective that is an organization's way of doing things and a pattern consistency in behavior over time. Strategy may be the centerpiece or the object of a plan, but it is not a plan per se. A ploy may appear somewhat synonymous with strategy but it is a narrower concept that perhaps corresponds more with tactics than with strategy. Perspective is an interesting concept which refers broadly to a firm's overall purposes and focus.

Another concept offered by Mintzberg (1994) is position, which is closest to being a major constituent of strategy. Established market positions represent organizations successful efforts to imbue their products with distinctive value and embed that value in the minds of consumers. If they are successful in achieving distinctiveness and that position indeed is perceived to have value then the position will likely generate competitive advantage and serve the interests of strategy.

The fifth conceptualization of strategy offered by Mintzberg (1994) is pattern. Here he addresses an important aspect of strategy formulation that it is more of the product of organizational learning than a one-time decision. Although insights into the processes and patterns of organizational learning are helpful and important they provide little direction to the actual meaning of strategy.

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According to Henderson (1989) some basic elements are present in a competitive strategy. These include the ability to understand the competitive environment as an interactive system (competitors, customers, money, people and resources), ability in using this understanding to predict the effects of a strategic move, resources can be committed to new uses even when the benefits are not immediate, ability in foreseeing the risks and returns with sufficient accuracy to justify the new use of resources and disposition for action.

As has been observed strategy is revolutionary since it is deliberate and aimed at rapid changes in competitive relations. According to Henderson (1989) there are factors inhibiting this revolutionary nature, the failure and advantages inherent in the position of an attentive defender. Over time one can observe alternating periods of more or less heightened competition. Further, beginning at the end of the 20th century the periods of calm have become shorter. Strategy depends on subjective judgments of one's own actions and those of one's rivals. A posteriori analysis of events reveals that it is not always the strategy which appears evident that had been previously imagined.

For Mintzberg et al (1998) strategy has the following aspects; having to do with the organization as well as the environment, it is in essence complex, affects the overall welfare of the organization, it involves issues of content as well as process, it is not purely deliberative, exists at several levels and involves several thought processes. According to Ansoff et al (1990) strategy is a set of decision making rules for guidance of organizational behaviour. Porter (1996) defines strategy as a combination of the ends for which the firm is striving and the means by which it is seeking to get there. As for Andrews et al (1980) strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals. It defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of

the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.

2.2 Value of Strategy

The need for strategy is linked to the existence of competition whether to win a war or to conquer the market. But this is a necessary condition and is not sufficient to explain what strategy is about. There is competition among species in nature for survival but we can not speak of a strategy for natural selection. The random variations produced in species will adapt differently to the environment and only the best adapted will survive. Speaking of the processes of nature it is interesting to note that Gause's principle of competitive exclusion can be verified in experimentation with elementary living beings. According to this principle when beings of the same species are isolated in an environment with limited resources, none of them survive. However if there are beings from different species survival is possible. In other words two species that compete in an identical manner cannot exist in the same environment. The richer the environment is in terms of resources the more species there will be and also more competition (Henderson, 1989).

According to Henderson (1989) as in nature, in the business environment there cannot be companies competing in the same way for the same market even though this is not evident at the first glance. However competition existed before strategy, but there is a basic difference between natural competition and strategy. Natural competition is evolutionary and governed by the laws of probability while strategy is revolutionary and governed by reason and imagination, aiming at accelerating the pace of change. Revolutionary here is used in the sense of breaking with the natural course of things, in the sense of making deliberate

interventions. Thus strategy is a deliberate search for a plan of action that will develop a competitive advantage for the business and putting this plan into practice. This search necessarily begins with an understanding of whom, where you are and your goal is to increase the scope of the advantage a company will have in competing for the market.

It is noted that strategy has two perspectives, that of a plan and that of the execution of the plan. This view is also defended by Mintzberg, et al (1998). For these authors, strategy is a plan for directing activities toward a future and those who develop it desire to shape favourably for themselves. On the other hand, there is the notion that strategy is equally linked to the execution of the plan, to what really was done.

According to Porter (1996) a competitive strategy means choosing a different arrangement of activities to deliver a package of unique value, thus staking out a strategic position. Strategic positioning can be realized based in three distinct sources that are not mutually exclusive. These are the variety of products and services, meeting the needs of a certain group of consumers and the particularities of accessibility of a specific group of consumers. For positioning based on the variety of products and services, the main idea is to choose a range of products and services to be offered and to develop activities which will allow them to be produced in the best way possible. Differences in accessibility can lead to strategic positioning, even when consumer needs are not different from those of other customers, but when the means to reach customers demands a differentiated set of activities. This can occur due to geographic factors, the scale of production or other factors which require a specific manner of accessing customers.

In a similar fashion, Markides (1999) understands the essence of strategy to lie in the company's choosing a position that it can sustain as its own. In addition developing strategy is a process of elaborating questions, generating alternatives, and making choices. These issues and choices involve three dimensions, that is, which customers to focus on, what products to offer and how to realize these activities in an efficient manner. The strategic positioning of companies comes from their responses to these three questions and if they are differentiated will lead the companies to success. Choosing a unique position still is not sufficient to guarantee a sustainable advantage since the competitors can imitate this behavior and aim at the same strategic positioning. However in assuming some options, the companies have to let go of others under the risk of not being successful in any of them. Therefore equilibrium between exclusive alternatives (trade-offs) must be sought without which the companies will not arrive at a sustainable advantage.

According to Porter (1996) there are three reasons for the need of trade-off. The first reason is to maintain consistency in image or reputation. The second reason is to have compatibility with the nature of the activities themselves. The third reason is to have limitations on internal coordination and in the control of activities. To maintain a consistent image or reputation it is important that customers should not be confused but perceive that they always receive the same kind of value. The compatibility of the characteristics themselves should be preserved to facilitate the more homogenous use of equipment, as well as to meet the demands for capabilities, behavior, training of employees and managers. The existence of limits on the internal coordination and control means that the company has to make choices in line with its priorities under penalty of not achieving adequate performance if it divides its efforts among many alternatives.

This spectrum of choices contains two groups of factors that influence decisions. These are the external competitive environment in which the company is active and its own internal characteristics. In turn each of these unfolds into two other factors. Both the threats to companies and their opportunities are to be found in the competitive environment. Internally the company has both strengths and weaknesses. The strength, weakness, opportunities, and threats (SWOT) analysis has the objective of recognizing limitations, maximizing the organization's strong points while monitoring opportunities and threats in the competitive environment. Models such as the structure analysis of industry Porter (1979) help to understand the external environment. There are models such as core competencies which lend themselves to analyzing the internal situation of companies (Prahalad, et al, 1990).

2.3 Collaborative Strategies

According to Child et al (1998) cooperative strategy is the attempt by organizations to realize their objectives through cooperation with other organizations rather than in competition with them. It focuses on the benefits that can be gained through cooperation and how to manage the cooperation so as to realize them. A cooperative strategy can offer significant advantages for companies which lack particular competences or resources by securing links with others possessing complementary skills or assets. It may also offer easier access to new markets and opportunities for mutual synergy and learning.

According to Bowman et al (1997) competitive strategy is concerned with the question of how a firm can gain advantage over its competitors. There are two broad traditions within thinking about competitive strategy. The first emphasizes how superior profits can be derived from the structure of the industry in which a firm is located, and from the pursuit of generic strategies

cost leadership, differentiation, or focus in ways which suit the conditions of that industry (Porter, 1980, 1985). The second tradition draws attention to the competitive advantage that can be gained from a firm's unique competences and resources, which combine to deliver valued products and are difficult to imitate or acquire (Collis, 1996). A strategy of cooperation with one or more other firms can be a counterpart to the pursuit of competitive advantage in the ways identified by both these traditions of thinking about competitive strategy. The ability to maintain both the structure of an industry and a firm's position within it can be enhanced by cooperation with competitors. This could be a primarily defensive alliance against dominant firms or a more offensive alliance intended to secure a stronger position within the industry and/or reduce opportunities for new entrants. Both these kinds of alliance are currently evident within the global telecommunications industry.

Entry into an industry or regional sector is sometimes only feasible in the first place through a partner. The ability to enter some markets, especially in developing countries or those with invisible entry barriers like Japan may be possible only through cooperation with a local firm. The local firm is able to offer a capability which the foreign partner does not currently possess. This case leads on to the second tradition of thinking on competitive strategy which draws attention to the competitive advantage that can be gained from possessing unique capabilities. Valued competences and resources are often available only from a partner or from sharing their development with a partner. Alliances may enable firms to gain access to partner's advanced technology or share the high cost of developing new capabilities through research and development (Faulkner, 1995).

According to Johnson et al (2005) collaboration between potential competitors or between buyers and sellers is likely to be advantageous when the combined

costs of purchasing and buying transaction such as negotiating and contracting are lower through collaboration than the costs of operating alone. Some of the alliance strategies are buyer and seller collaboration, collaboration to increase buyer power, collaboration to build barriers to entry or avoid substitution, collaboration to gain entry to competitive power and collaboration to share work with customers. Forms of alliance strategies include joint ventures, consortia, networks, opportunistic alliances, franchising and co-production.

2.4 Outsourcing

We live in a world that can best be described as hyper-competitive. Globalization is inextricably linking the world's major economies. Today's standard of excellence is not just best in class but best in the world. In this global economy every company must compete against customer choices coming from everywhere and anywhere. The single most visible result of this hyper-competitive environment is rapid commoditization. Power is essentially shifting from the producers of goods and services to the consumers. A company's ability to command a higher price for the unique value it offers lasts only for a fleeting moment. At the same time, the pressure on businesses for improved performance is unrelenting. Growth and profitability are expected. Increased shareholder value is demanded. Disappointments on any of these fronts are severely punished in the capital markets, making funding future operations even more difficult (Drucker, 1989).

According to Drucker(1989) it is against this backdrop of hyper-competition and increasing pressure for performance that the very structural integrity of organizations is beginning to break down. The classical view was that organizations should be, by design, vertically integrated and self-sufficient, vertically integrated through a hierarchical, command-and-control structure,

self-sufficient in terms of setting out to own, manage and control as many of the factors of production as possible. This classic approach may no longer be possible, practical, or even desirable in today's world. There are two key reasons for this. The first is that the accelerating pace of change dramatically compresses investment cycles. The competitive advantage from an organization's internal investments lasts for a shorter and shorter period of time. This unavoidably leads to an upwardly spiraling demand for new investment across the entire organization. It is a demand that few if any organizations can meet. The second reason that the vertically integrated, self-sufficient structure is breaking down is that all the operational activities across an organization are becoming increasingly specialized and knowledge-driven. Rapid advancement in every field makes it a practical impossibility for every organization to develop and sustain best-in-class expertise in every facet of its operation. Yet, whenever even a single part of the business is operating below that standard of excellence, the result is diminished capacity, reduced performance, higher costs and competitive disadvantage.

Drucker (1989) argues that organizations are moving away, even being forced away from this classical structure toward a structure based on some very powerful new principles. Doing the right thing is becoming more important than doing everything. Expertise is rivaling size as a competitive differentiator. Producing results is becoming more important in most cases than is the ownership of resources. In addition more and more people working for organizations will actually be on the payroll of an independent outside contractor. Outsourcing, then, is in direct response to these realities of the modern world. It is organizations going through a natural "make versus buy" decision relative to how best to source those activities that need to be performed but which the organization gains little unique competitive advantage by doing itself. Outsourcing is essentially a market-driven process and a number of

inherent factors work together to shift the balance of the value equation toward the "buy" side more and more every day. The first is the continuous increase in the number and capabilities of outsourcing service providers. Providers now exist for literally every facet of a business's operations and if a provider does not exist, one can be expected to quickly enter the market in response to a customer expressing interest in a particular service. As service providers enter the market, build their capabilities, and successfully deliver, they then take these proof points, along with their increased capabilities, and market the solution to other prospective customers. With each new customer, the service provider's knowledge and capabilities grow. Eventually the market reaches the point where the service providers are superior to just about any internal customer operation against which they might be compared.

The second driving factor toward the "buy" side is technology. Technology makes much of the work of the modern organization placeless as geography is history in the global market. Most information-based activities can be done as easily half a world away as they can be across the street. Traditionally, one would think of the business as existing in a building or on a campus with its various departments operating in close proximity to each other. This is simply no longer necessary. Once these physical barriers are removed, it becomes easier to consider removing the organizational barriers as well. Technology is also the primary driver of the compression of the investment cycles. When the technology cycle was five to ten years and technology investments could be depreciated over three to five years, then internal investments in technology made sense. In today's world, the technology cycles have been shortened to one from three years, but the depreciation cycle has not really changed. The result is that internal investments in technology are likely to be obsolete before they are depreciated, assuming that the organization implemented the right technology decision early enough in the cycle. If it made the wrong technology choice or

made the choice toward the end of the cycle, then the investment may be obsolete before it is even put into service. Internal technology investments get increasingly risky all the time, making buying services, as opposed to the technology itself, the lower risk path (Dominguez, 2006).

The final factor that constantly drives organizations toward the "buy" side is the competitive pressure placed on them. The hyper-competitive environment already discussed also means that for an organization to continue to perform an activity internally, it must be better at it than its direct competitors and the best outsourcing providers its competitors can hire. The standard of performance has been raised exponentially. Outsourcing is not only a result of the hyper-competitive environment organizations face, but also a contributor to it. While outsourcing improves the performance of areas of the business that do not provide a unique competitive differentiation, it also frees needed capital and resources for investment in those areas that do. It reduces both direct costs and opportunity costs (Prahalad and Hamel, 1990).

The areas of the business's operation that provide its unique competitive differentiation, the areas where neither of its competitors nor the external market-place of providers can deliver superior results are its core competencies. Quinn et al (1994) identified seven characteristics of core competencies as skills and knowledge sets not products or functions; flexible, long-term platforms capable of adaptation or evolution, limited in number with no more than two or three per organization, unique sources of leverage in the value chain, areas where the company can dominate, elements important to customers in the long run and capabilities embedded in the organization's systems.

At the organizational level, outsourcing represents a basic restructuring of businesses away from a model designed for the industrial age toward one that is more appropriate for today's information age. At the same time, each outsourcing decision an organization makes is a discrete transaction. Strung together, these transactions change the overall shape of the business, but each transaction has to be understood and justified in terms of its individual impact on the business's current and near-term performance. Outsourcing as an overall course of action may be a macro choice, but each specific outsourcing engagement the company enters is very much a micro choice that must be justified in its own right (Corbett, 2004).

According to Corbett et al (2004) the basic reason for outsourcing is to reduce costs. However the organization chooses to spend those savings, whether they are passed along to its customers, reinvested into other areas of its operations, or returned to its owners and shareholders, the need for every organization to continually drive down its costs is constant.

Although savings is an important reason for outsourcing, it is only the primary reason for half the executives who use it, meaning that for the other half something other than cost savings is the primary driver. The second most important of these is the ability to focus more company resources on the core parts of operations activities that provide a unique competitive advantage. Access to skills not available to the organization internally is another benefit attributable to many outsourcing decisions. Few organizations can hire all of the talent they need, yet few can compete successfully with a talent gap. Because service providers are more specialized and are serving many customers, they have a much deeper talent pool upon which to draw. Measurable improvements in quality can result as well. Areas of the business that don't produce unique competitive advantage are often the last to be funded and invested in, making

continuous improvements in quality difficult to achieve. Another tangible benefit of outsourcing is that not only is the need for new capital significantly reduced since the provider often brings in the needed resources but current assets may be sold to the provider, freeing capital dollars already invested. These dollars can then be reinvested in other parts of the business or used to improve the company's overall balance sheet and reduce its future cost of capital.

Most recently, companies have began to find that bringing in outside specialists spurs much needed innovation in their operations. Some equate outsourcing to having a dedicated research and development (R&D) department, as the provider innovates new solutions they can be immediately put into practice in the company's own operations. According to Quinn (2000) no one company acting alone can out-innovate all its competitors, potential competitors, suppliers, and external knowledge sources. The effect that outsourcing has on innovation may be its single most important, long-term contributor to success. Another often overlooked, sometimes difficult to quantify, but very important aspect of outsourcing's value is its ability to free an executive's time to focus on the "what" of the business as opposed to the "how". For many executives, dealing with the day-to-day details of operational activities robs them of time that would be better spent externally on customers, shareholders, investors, and suppliers. Outsourcing moves many of those "how" responsibilities to the provider, while enabling the executives to focus on defining the "what" of their businesses through a services agreement and outcomes scorecard.

Outsourcing has played an essential role in most of today's successful businesses. However, ending a review of outsourcing's history without discussing its difficulties would be a disservice. Any change as significant as outsourcing has risk. Not all organizations execute well. Not all providers

deliver well for every customer. Even when both companies execute well, other factors can keep the relationship from delivering its intended benefits. Various surveys regularly report a surprisingly high rate of outsourcing failures. For example a report published by Gartner (2003) reported that one-half of all outsourcing deals are labeled “failures” by decision-making executives because the results do not meet expectations. A survey by UK-based PA Consulting Group (2003) found that sixty six percent of the benefits anticipated from outsourcing were only partially realized. Another study by Dun & Bradstreet (2000) found that twenty five percent of the functional areas within the two thousand two hundred companies surveyed had prematurely terminated at least one outsourcing contract during the preceding two years. Reports like these serve an important purpose, reminding us that, in business, results are never guaranteed. Achieving the intended results requires solid planning and hard work.When it comes to outsourcing, the particular areas of hard work and planning are choosing the right opportunities for outsourcing, setting realistic expectations, choosing the right providers, crafting a balanced relationship that offers sustainable benefit to customer and provider alike, properly managing outsourcing’s organizational impacts and managing the ongoing relationship.

There are also a number of barriers inside the organization that must be brought down if outsourcing is to work well. Managers fear a loss of control. They often believe that although an activity may not be core, it may still be too critical to be outsourced. They are concerned about losing flexibility by getting locked into a long-term contract with a service provider. They are concerned about how their customers may react. They are concerned about employee, and especially union, reactions. They are concerned, particularly when it comes to offshore outsourcing about community and political backlash over lost jobs (Corbett, 2004).

According to Corbett (2004) we traditionally think of companies in a hierarchical way, with people and the work they do organized into departments. Each department reports to a manager. These departments are then grouped into larger business units along functional or geographical lines reporting to executives. These executives, in turn, report to a handful of top executives with responsibility for the company's overall operations and performance. Understandably, outsourcing has followed this traditional hierarchical structure as well. This approach has simplified decision making and responsibility, since the same functional executive responsible for the work before it is outsourced is generally responsible for it afterwards. The hierarchy of the business, therefore, was not changed, just the way it sources the work of a particular department. There are, however, other ways to think about how the work taking place within a company is organized and, in turn, how it might be outsourced. One way is with a more lateral process perspective. Processes cut across an organization's departments and functions, ending where they produce an output that is valued by the organization's customers.

According to Hammer (2003) when process thinking is applied to outsourcing, it becomes business process outsourcing (BPO). It shifts the focus of traditional outsourcing and the way the relationships with outside specialists are defined and implemented within discrete departments toward a process-centric, end to end view of the business's activities. Because BPO cuts across many parts of the organization's operations, the outside specialist becomes a much more integral part of their customer's overall business. The provider not only assumes responsibility for performing specific pieces of work, but also for helping to design the overall business process, its outcome measurements, the technologies that enable it, and the supply chains that feed into it. With business process outsourcing, providers operate across the

customer's value chain often straight to the customer's customer. This can have a profoundly positive effect on the business, how it operates, and how it creates value for its customers. Business process outsourcing may have its roots in traditional outsourcing, but the results can be dramatically different.

According to Corbett et al (2004) in many ways, the evolution of outsourcing as a management practice mirrors that of information technology (IT). After all, the modern computer first came on the scene in the late 1940s and early 1950s, with limited understanding of the tidal wave of change it would create. As its use grew, it began to fundamentally transform business and our way of life. In many ways, outsourcing's recent past and probable future are following the same path. Just as technology is driven by an unrelenting desire to improve productivity, and to leverage knowledge and work, outsourcing is driven by just as powerful a set of forces. In fact, all wealth as we know it comes from outsourcing that is, specialization and trade. Specialization is why few of us cut our own hair, build, renovate, or maintain our own homes. We even outsource much of the education of our children to specialists. Innovation plays an essential role as well. Innovation is often the catalyst for the initial specialization, and once the specialization begins, a constant stream of new innovations fuels its progress. Innovation drives specialization and ensures its sustainable economic value.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

A census survey design was employed. The purpose was to provide baseline information as literature available does not show that similar studies on ATM service outsourcing have been carried out in Kenya. The data required was response to questionnaire that was send out to the respondents. This approach has been used previously in similar studies by Kipsang (2003). According to Cooper et al (2005) the advantages of sampling over census studies are less compelling when the population is small and the variability within the population is high.

3.2 Population

The population of the study was all the banks registered by the Central Bank of Kenya. As at 15th May 2007 they were forty three in number. The list of banks was obtained from the Central Bank of Kenya at the time of the study.

3.3 Data Collection

Primary data was collected via a structured questionnaire. The data collection instruments were questionnaires that were made of both closed and open ended questions. A letter of introduction was obtained from the University of Nairobi and send with each questionnaire to the respondent. The data was collected by use of mail survey but the questionnaires were delivered by hand to the respective respondents and collected later. The questionnaire was developed by review of other research projects that have been carried out before on outsourcing and by review of literature by ATM service outsourcing suppliers.

The target respondents were senior bank managers who were requested to complete the questionnaires as they are involved in the strategy setting in the organizations. The study covered the following areas; the services that are outsourced, the extent of outsourcing these services and the limitations that prevent banks from outsourcing any of the services. The target respondents in the banks were the ATM managers or in cases where the position does not exist the information technology managers were targeted.

3.4 Data Analysis

Data analysis was by use of descriptive statistics as this is an exploratory study. The descriptive analysis involved the examination across cases of one variable at a time. Descriptive statistics were used to describe the basic features of the study data. They provide simple summaries and quantitative descriptions about the sample and the measures in a manageable form. These statistics helped the researcher to simplify large amounts of data.

The descriptive statistics enabled the researcher to meaningfully describe a distribution of scores of measurements using a few indices or statistics. Data was tabulated using statistical averages, percentages and frequency tables.

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

In this chapter data from completed questionnaires is summarized and presented using statistical averages, percentages, frequency tables and proportions. Forty three commercial banks in Nairobi comprised the population. Forty three managers received the questionnaires, of these twenty two completed and returned the questionnaires. This gave an overall response rate of fifty one percent.

The data analysis is presented in four stages. The first stage is concerned with respondents profile while the second stage is on the organizations profile. The third and fourth stages are concerned with Kenyan banks ATM services outsourcing practices and factors that influence ATM services outsourcing practices.

4.2 Respondents Profile

4.2.1 Official Titles of the Respondents

Table 1 shows the official tittles of the managers of the banks who completed the questionnaires.

Table 1: Official Title of the Respondents

Title of Respondent	**Number of Respondents**
Infrastructure Manager	2
Project Manager	2
Information Communication and Technology Manager	3
Operations Manager	3
ATM Manger	4
IT Manager	4
System Administrator	4
Total	22

Source: Field data

The most prevalent title was ATM manager with a score of 4, IT Manager and system administrator with a score of 4, information communication and technology manager title with a score of 3. Operations manager with a score of 3 was also found to be used in some of the banks. The other titles that were found to be used were infrastructure manager and project manager each with a score of 2.

4.2.2 Work Experience

Table 2 shows the respondent's years of experience with the bank where they worked.

Table 2: Respondents Work Experience

Years	Total	Percentage (%)
Less than 2 years	4	18
Between 2-5 years	4	18
Between 6-10 years	7	32
More than 10 years	7	32
Total	22	100

Source: Field data

Fourteen of the respondents had a work experience of more than six years with the employer, making 64% of the respondents. Four respondents had worked for between two and five years with the employer. Four respondents had a work experience of less than two years.

4.2.3 Age of the Respondents

The age of the respondents is tabulated as shown in table 3.

Table 3: Age of the Respondents

Years	Total	Percentage (%)
18-25	0	0
26-35	4	18
36-45	14	64
46-over	3	14
Total	22	100

Source: Field data

The results as shown in table 3 indicate that 64% of the respondents were aged 36-45 years. Those whose age was 26-35 formed 18% of the respondents. Only 14% of the respondents were of age over 46 years. None of the respondents were of the age between 18-25 years.

4.3 Organizational Profile

4.3.1 Ownership of the Banks

Ownership of an organization or a bank is measured by the share capital proportions held by the shareholders.

Table 4: Proportion of Ownership

Years	Total	Percentage (%)
Jointly Owned (JO)	0	0
Wholly Foreign Owned (WFO)	3	14
Wholly Locally Owned (WLO)	5	22
Unanswered	14	64
Total	22	100

Source: Field data

The results as shown in table 4 indicate that 64% of the respondents were unaware of the proportion of ownership. The results indicate that 22% of the banks were wholly locally owned and 14% were wholly foreign owned.

4.3.2 Age of the Organization

Table 5 shows the ages of the banks that were sampled in the study. It shows the period in years that the organization has been in operation.

Table 5: Age of the Organization

Years	Total	Percentage (%)
Less than 10 years	2	9
Between 11 and 20 years	4	18
More than 20 years	16	73
Total	22	100

Source: Field data

The results on table 5 show that 73% of the banks had been in operation for a period of more than 20 years. This can be interpreted to mean that they may not be able to fully outsource the ATM services because they had installed their ATM machines before the establishment of the independent ATM service providers. In this case, they build their own infrastructure which is still being depended upon. The banks that had been in operation for between 11 and 20 years formed 18%. Only 9% of the banks had been in operation for less than 2 years.

4.3.3 Number of Employees

The number of employees that worked in the banks is tabulated in table 6.

Table 6: Number of Employees

Years	Total	Percentage (%)
Less than 100	1	5
Between 101 and 200	5	23
Between 201 and 300	2	9
Between 301 and 500	2	9
Between 501 and 1000	2	9
Between 1001 and 3000	7	32
Over 3000	1	5
Total	22	100

Source: Field data

From table 6 the results show that the number of employees was more than 1001 for most of the banks. A total of 32% of the respondents indicated this to be the case. This result is an indication that the banks were providing most of the services in house. The banks that had between 101 and 200 employees formed 23% of the twenty two banks who responded. This may be an indication of the number of small banks.

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4.3.4 ATM Management

The ATM management is the department under which the management of ATM falls under. Out of the twenty two respondents, eight indicated that the ATM service falls under information and technology department. Following very closely were the respondents who indicated that ATM management falls under the Operations department. An interesting result is where the respondents indicated that the ATM service falls under the customer service and retail service departments.

4.4 ATM Services Outsourcing Practices

4.4.1 ATM Operations

The number of years that a bank has operated the ATM may indicate its innovativeness. It may also indicate as to why the bank is not able to outsource its ATM services as it has already build the capabilities needed to support the ATM operations in house. However, if the bank has operated the ATM services for a relatively longer period of time and it outsources the ATM services, then it might indicate that the bank is trying to cut down on its costs or improve on customer services.

Five of the respondents indicated that they have operated the ATM services for less than five years. It is only one respondent who indicated that they have operated the ATM services for thirteen years. However, only one respondent indicated that they do not operate ATM services. This could be an indication that some banks fully outsource these services to the independent ATM service providers.

4.4.2 Number of ATMs

The number of ATMs that a bank has indicates its focus on improving customer service as well as the size of its customer base. The number of ATMs is presented in table 7.

Table 7: Number of ATMs

Number of ATMs	Total	Percentage (%)
Less than 10	5	23
Between 11 and 20	9	41
Between 21 and 30	1	5
Between 31 and 50	3	14
Between 51 and 75	1	5
Between 76 and 100	2	9
Between 101and 150	2	9
Over 150	3	14
Total	22	100

Source: Field data

From table 7, 41% respondents indicated that the number of ATMs that they operated was between 11 and 20. In addition, only 23% indicated that they operated less than 10 ATMs. This leaves out 36% of the banks operating over 20 ATMs. The results supports the fact that banks have and are responding to

the need to use technology to improve on customer service and that the ATM is one way of achieving this objective.

4.4.3 Ownership of ATMs and Related Assets

Table 8: ATMs and Related Assets

Variable	Total	Percentage (%)
Others	0	0
Own ATM only	1	5
Does not own ATM and assets	1	5
Own ATM and all related assets	6	27
Own ATM and some other related assets	14	64
Total	22	100

Source: Field data

As indicated from table 8, sixty four percent of the respondents indicated that they own ATMs and some other related assets. Five percent of the respondents indicated they do not own ATMs and other related assets. Those who own ATMs and all other related assets were twenty seven percent. This implies that mainly the ownership of ATMs and all related assets was critical to most banks for effective provision of ATM services and that they consider ownership of ATMs as providing competitive advantage.

4.4.4 Extent of ATM Services Outsourcing

Table 9 presents services that may be outsourced and the extent of outsourcing of these services.

Table 9: Extent of ATM Services Outsourcing

Service	Mean
Coordination of site preparation	2.2
Connection and certification of ATMs to the third processing center	2.3
ATM and cash delivery	2.6
ATM cleaning	2.6
ATM installation	2.7
Re-routing of domestic and international Visa/ MasterCard cards to Visa/MasterCard authorization networks	2.7
Contracting with and management of subcontractors for telecom maintenance	2.7
24 hour per day ATM availability monitoring including cash positioning monitoring	2.8
Preparation of all necessary acquirer activity reports	2.8
Monitoring and maintenance of authorization connections	2.9

Management of ATM delivery	3.0
Certification of connection of existing bank switching center for routing and authorization of bank cards	3.0
ATM cash forecasting, filling and counting	3.0
Identification of the problems, dispatching and resolution of ATM problems	3.1
Contracting with and management of subcontractors for first line maintenance	3.1
Cash delivery	3.1
Management site selection for ATM deployment	3.2
Deposit handling	3.4
Value added services and generation of increment revenue (additional cards accepted, ATM advertising, electronic recharge etc)	3.4
Contracting with and management of subcontractors for second line maintenance	3.5
Preparation of transaction summary, clearing and settlement reports, reconciliation of disputed transactions and balancing	3.5
Compliance with Visa and MasterCard	3.6

Source: Field data

Legend: Likert 5 point scale, 1- not outsourced, 5 - fully outsourced.

From table 9 it is noted that second line maintenance with a mean rate of 3.5 was found to be outsourced to a greater extent than all other services. Similarly preparation of transaction summary, clearing and settlement reports, reconciliation of disputed transactions and balancing was found to be outsourced to a greater extent with a mean rate of 3.5. Compliance with Visa and MasterCard requirements was also found to be outsourced to the greatest extent with a mean rate of 3.6. The service that was found to be least outsourced was coordination of site preparation with a mean rate of 2.2.

4.5 Factors that Influence ATM Services Outsourcing

4.5.1 ATM Services Outsourcing Benefits

All the twenty two respondents indicated that banks take into consideration the benefits of outsourcing on whether to outsource certain ATM services. The benefits that banks consider when outsourcing ATM services are tabulated in table 10.

Table 10: ATM Services Outsourcing Benefits

Outsourcing benefits	Mean
Access skills that would not ordinarily be found within the company	2.1
Establish a variable cost structure	2.5
Improve customer service	3.9
Focus resources on core activities	3.9
To spur innovation	4.5

Grow revenue from ATM channel	2.3
Improvement on quality	2.7
Reduced costs	2.8
Need for capital significantly reduced	3.6
Free executive time for customer service activities	3.8

Source: Field data

Legend: Likert 5 point scale, 1 - not outsourced, 5 - fully outsourced.

Table 10 indicates that spurring innovation with a mean rate of 4.5 was the most dominant factor. Improving customer service with a mean rate of 3.9 similarly received high score among most of the respondents. The other factors that were found to influence outsourcing of ATM services were to focus resources on core activities with a mean rate of 3.9 and free executive time for customer service activities with a mean rate of 3.8. This could be explained by the fact that stiff competition in the industry necessitates in provision of improved services. Accessing of skill that would not ordinarily be found within the company was the least preferred factor with a mean rate of 2.1. This could be interpreted to mean that stiff competition and customer services were the driving force in outsourcing of ATM services.

4.5.2 ATM Services Outsourcing Barriers

The following factors presented in table 11 were considered by managers as barriers to outsourcing of ATM services.

Table 11: ATM Services Outsourcing Barriers

Outsourcing barriers	Mean
Loss of flexibility	2.3
Loss control	2.5
Employee resistance	2.6
Too critical to outsource	2.7
Negative customer reaction	2.8

Source: Field data

Legend: Likert 5 point scale, 1 - not outsourced, 5 - fully outsourced.

According to results in table 11, negative customer reaction with a mean rate of 2.8, too critical to outsource with a mean rate of 2.7, employee resistance with a mean rate of 2.6 and loss of control with a mean rate of 2.5 were found to be the most important barriers considered when outsourcing ATM services. Loss of flexibility with a mean rate of 2.3 was found to be the least barrier when outsourcing ATM services. All the factors received a relatively low rating and it can be concluded that in as much as there are barriers to outsourcing of ATM services by the banks, they have little significance when it comes to making choice of whether to outsource or not.

5.0 SUMMARY, RECOMMEDATIONS AND CONCLUSIONS

5.1 Summary of Findings

5.1.1 ATM Services Outsourcing Practices

In relation to ATM service outsourcing practices majority of the respondents indicated that most of the ATM services were partially outsourced. Second line maintenance was found to be outsourced to a greater extent than all other services. Similarly preparation of transaction summary, clearing and settlement reports, reconciliation of disputed transactions and balancing was found to be outsourced to a greater extent. Compliance with Visa and MasterCard requirements was found to be outsourced to the greatest extent. The service that was found to be least outsourced was coordination of site preparation. The level of outsourcing of the other services lay in between with some services not being outsourced at all.

5.1.2 Factors that Influence ATM Services Outsourcing

From the study it was found that outsourcing was beneficial to the organization indicating that managers regarded outsourcing as an alternative to running ATM services internally. Spurring innovation was the most dominant factor that managers considered a benefit when deciding whether to outsource ATM services or not. Improving customer service similarly received a high score among most of the respondents. The other factors that were found to influence outsourcing of ATM services were to focus resources on core activities and free executive time for customer service activities. This could be explained by the fact that stiff competition in the industry necessitates in provision of improved

services. Accessing of skill that would not ordinarily be found within the company was the least factor that would make a bank outsource ATM services. This could be interpreted to mean that stiff competition and customer services were the driving force in outsourcing of ATM services.

In terms of barriers to outsourcing of ATM services, negative customer reaction, too critical to outsource, employee resistance and loss of control were found to be the most important factors considered when outsourcing ATM services. All the factors received a relatively low rating. It can be concluded that in as much as there are barriers to outsourcing of ATM services by the banks they have little significance when it comes to making an outsourcing decision. This could be taken to mean that banking institutions focus on the benefits that would be realized from outsourcing a service rather than the problems associated with it.

5.2 Recommendations

From the survey results it is apparent that outsourcing of ATM services brings with it advantages over internally providing these services. For that reason it is the opinion of the researcher that banks should strive to outsource those ATM services that are not core and do not provide a competitive advantage. In this way they need to choose to cooperate in using common supplier, making the suppliers become experts, creating competition between the suppliers and eliminate the costs of each bank running its own infrastructure. One way of doing this would be to use the Kenya Bankers Association as a forum that would create the necessary inertia for shared services. The banks need to be aware of the barriers of outsourcing at the onset of the outsourcing decision. They need to work to eliminate or mitigate these barriers for success as

outsourcing is itself a form of change. They need to build the correct structures. They need to identify the right outsource partners who have the capability to deliver and in addition create a fallback plan.

5.3 Limitations of the Study.

The research met with various challenges when conducting the survey that included the fact that banks ordinarily do not want to give information due to client confidentiality. In addition some of the banks do not have ATMs and would not find the subject to be of interest. Additionally some of the banks would not want to give the information as they consider it of competitive importance.

The respondents being normally very busy people may not have found a lot of time to respond to the survey. In other cases the banks are very small and as such one person has several roles and in that case there will be no time to complete the questionnaire. Due to limitation of time the researcher could not wait for the respondents who took too long to complete the survey.

This study had limitation of measurement like all other studies. Certain factors like benefits and barriers are difficult to quantify and may change overtime. The respondents may also have been biased or dishonest in their answers.

5.4 Suggestions for Further Research.

This research was a census survey to establish a baseline in the area of ATM services outsourcing by Kenyan banks and for that reason there is need for further research. A case study of the implementation of ATM services outsourcing in any of the banks is one area that needs further research.

Since this study was based on ATM services outsourcing by Kenyan banks, a study can be carried out on attitude of employees towards ATM services outsourcing.

Further research may be undertaken in Kenya on the subject of ATM services outsourcing to cover such areas as ATM services outsourcing failures, ATM services outsourcing risks, ATM services outsourcing vendor selection and development of ATM services outsourcing partners by Kenyan banks.

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Appendix I

Questionnaire to the Respondent

Please tick in the box, circle or fill in the blank spaces (other specify option) as necessary.

Do not indicate your name or that of your bank anywhere in this document.

SECTION A:

Respondents Profile

1. What is your official title ?

   ATM manager [ ]

   IT manager [ ]

   Other (Please specify): ________________________________

2. How long have you been with this firm ?

   Less than 2 Years [ ]

   Between 2- 5 Years [ ]

   Between 6-10 Years [ ]

   More than 10 Years [ ]

3. How old are you?

   Age 18 – 25 [ ] 26 – 35 [ ] 36 – 45 [ ] 46 – over [ ]

Organizational Profile

1. How would you classify your organization in terms of ownership ?

Wholly foreign owned [ ]
Wholly locally owned [ ]
Jointly owned [ ]

2. If your organization is jointly owned between local and foreign investors, what is the proportion of ownership ?

Largely foreign owned [ ]
Largely locally owned [ ]
Equally owned [ ]

3. For how long has your organization been in existence ?

Less than 10 years [ ]
Between 11 and 20 years [ ]
Mores than 20 years [ ]

4. How many employees does your organization have ?

Less than 100 [ ]
Between 101 – 200 [ ]
Between 201-300 [ ]
Between 301-500 [ ]
Between 501-1000 [ ]
Between 1001-3000 [ ]
Over 3000 [ ]

Other (Please specify):______________________________

5. Under which department is ATM management ?

Operations department [ ]
Finance department [ ]
Customer service department [ ]
It is a separate department [ ]
Information technology department [ ]

Other department (Please specify):______________________________

SECTION B:

Ownership of ATMs and Related Assets

1. For how long has your bank had or operated ATMs ?

Less than ten years [ ]
Less than five years [ ]
Less than three years [ ]
Other specify :______________________________

2. How many ATMs does your bank have or operate ?

Less than 10 [ ]
Between 11-20 [ ]
Between 21-30 [ ]

Between 31-50 [ ]

Between 51-75 [ ]

Between 76-100 [ ]

Between 101-150 [ ]

Over 150 [ ]

3. Does your bank own the ATM and related assets ?

Own ATM only [ ]

Own ATM and all related assets [ ]

Own ATM and some of the other Assets [ ]

Does not own ATM and assets [ ]

Other (Please specify): ______________________________

Extent of ATM Services Outsourcing

Please circle the number that best describes the extent of outsourcing of each, **1 for no outsourcing** and **5 for fully outsourced** or place your comments at the **other specify option**.

To what extent are the following ATM activities outsourced by your organization ?

1. ALL Services are fully outsourced. 1 2 3 4 5

2. Management of site selection for ATM deployment. 1 2 3 4 5

3. Coordination of site preparation 1 2 3 4 5

4. ATM installation. 1 2 3 4 5

5. Management of ATM delivery 1 2 3 4 5

6. Connection and certification of ATMs to the third-party processing center. 1 2 3 4 5

7. Certification of connections to existing bank switching center for routing and authorization of bank cards. 1 2 3 4 5

8. Re-routing of domestic and international Visa/MasterCard cards to Visa/MasterCard authorization networks. 1 2 3 4 5

9. Monitoring and maintenance of authorization connections. 1 2 3 4 5

10. Daily transaction processing, switching/routing, and reporting. 1 2 3 4 5

12. 24 Hour per day ATM availability monitoring including cash position monitoring. 1 2 3 4 5

13. Identification of problems, dispatching and resolution of ATM problems. 1 2 3 4 5

14. Contracting with and management of subcontractors for telecom maintenance. 1 2 3 4 5

15. Contracting with and management of subcontractors for first line maintenance . 1 2 3 4 5

16. Contracting with and management of subcontractors for second line maintenance. 1 2 3 4 5

17. Cash delivery. 1 2 3 4 5

18. ATM and cash security. 1 2 3 4 5

19. ATM cleaning. 1 2 3 4 5

20. ATM cash forecasting, filling and counting. 1 2 3 4 5

21. Preparation of all necessary acquirer activity reports. 1 2 3 4 5

22. Compliance with Visa and MasterCard regulations. 1 2 3 4 5

23. Preparation of transaction summary, clearing and settlement reports reconciliation of disputed transactions and balancing. 1 2 3 4 5

24. Deposit handling. 1 2 3 4 5

25. Value added services and generation of incremental revenue (additional cards accepted, ATM advertising, electronic recharge etc.). 1 2 3 4 5

Other (Please specify): ____________________

ATM Services Outsourcing Benefits.

The following are factors or benefits that banks take into consideration when they make decisions on whether to outsource certain ATM services or not .
Please circle the number that best describes the level of importance of the following factors, **1 for lowly considered** and **5 for highly considered** or place your comments at the **other specify option**

1. To spur innovation. 1 2 3 4 5

2. Improve customer service. 1 2 3 4 5

3. Establish a variable cost structure. 1 2 3 4 5

4. Focus resources on core activities. 1 2 3 4 5

5. Access skills that would not ordinarily be found with the company. 1 2 3 4 5

6. Improvement on quality. 1 2 3 4 5
7. Need for capital significantly reduced. 1 2 3 4 5

8. Free executive time for customer facing activities. 1 2 3 4 5

9. Grow revenue from the ATM channel. 1 2 3 4 5

10. Reduce costs. 1 2 3 4 5

Other (Please specify):______________________________________

ATM Services Outsourcing Barriers

There are a number of barriers that can cause the bank not to outsource some ATM services. Please indicate in order of priority by choosing, **1 for least barrier** and **5 for the highest barrier** for the factors listed here below or or place your comments at the **other specify option**.

1. Loss of control 1 2 3 4 5

2. Too critical to outsource 1 2 3 4 5

3. Loss of flexibility 1 2 3 4 5

4. Negative customer reaction 1 2 3 4 5

5. Employee resistance. 1 2 3 4 5

Other (Please specify):______________________________________

Appendix II

Letter to the Respondent

Date

Dear Respondent,

I am a postgraduate student undertaking a Master of Business Administration degree course at the School of Business, University of Nairobi. I am currently conducting research in the area of ATM service outsourcing in Kenya as a strategic choice for Kenyan banks.

The title of my research is 'ATM services outsourcing practices by Kenyan banks'. This leads to essentially a survey of the banking sector in Kenya as presently ATMs are mainly operated by the banks and outsourcing companies in Kenya.

Your firm is one of the banks that are licensed and operate in Kenya and in addition you operate or use ATMs as one of the channels for service delivery to your customers. As the number of banks in Kenya who use ATMs is small and considering the total number of banks presently in Kenya is only forty three, the intention is to survey all banks in Kenya.

The information you provide in this survey is classified and will be treated with strict confidentiality and used only for academic purposes. In my survey report presentation I undertake not to refer to your name or that of your organization directly and that no such record exists or is established. I would therefore request you to take some time to fill the attached questionnaire. I would also appreciate any additional information that you feel can help in making my

research findings more conclusive, important, relevant and reflective of the subject matter.

Thanking you in advance.
Yours faithfully.

Mark Robert Mwangangi	Prof. E. Aosa
MBA Student.	Associate Dean, School of Business
	University of Nairobi.

Appendix III

List of Kenyan Banks

1. African Banking Corporation Ltd.
   P.O Box 46452 - 00100, Nairobi
   ABC Bank, Mezzanine Floor, Koinange Street

2. Bank of Africa Kenya Ltd
   P.O Box 69562 Nairobi
   Re-Insurance Plaza, Taifa Rd

3. Bank of Baroda (K) Ltd
   P. O Box 30033 - 00100 Nairobi
   Baroda House, Koinange Street

4. Bank of India
   P.O Box 30246 - 00100 Nairobi
   Kenyatta Avenue

5. Barclays Bank of Kenya Ltd
   P. O. Box 30120 - 00100 Nairobi
   Barclays Plaza, Loita Street

6. CFC Bank Ltd
   P.O Box 72833 - 00200 Nairobi
   CFC Centre, Chiromo Rd, Westlands Nairobi

7. Chase Bank (K) Ltd
   P. O. Box 28987 - 00200 Nairobi
   Prudential Ass. Building, Wabera Street

8. Citibank N.A Kenya
   P.O Box 30711 - 00100 Nairobi
   Citibank House, Upper Hill Rd

9. City Finance Bank Ltd
   P. O. Box 22741 - 00400 Nairobi
   Unity House Koinange Street

10. Co-operative Bank of Kenya Ltd
    P. O. Box 48231 - 00100 Nairobi
    Co-operative House

11. Commercial Bank of Africa Ltd
    P. O. Box 30437 - 00100 Nairobi
    CBA Building, upper hill

12. Consolidated Bank of Kenya Ltd
    P. O. Box 51133 - 00200 Nairobi
    Consolidated Bank House, Koinange Street

13. Credit Bank Ltd
    P. O. Box 61064 Nairobi
    Mercentile Hse, Koinange Street

14. Development Bank of Kenya Ltd
    P. O. Box 30483 - 00100 Nairobi
    Finance House, Loita Street

15. Diamond Trust Bank (K) Ltd
    P. O. Box 61711 - 00200 Nairobi
    Nation Centre, Kimathi Street

16. Dubai Bank Kenya ltd
    P. O. Box 11129 - 00400 Nairobi
    I C E A Building, Kenyatta Avenue

17. East African Building Society
    P. O. Box 47499 Nairobi
    Fedha Towers, Muindi Mbingu Street

18. Equatorial Commercial Bank Ltd
    P. O. Box 52467 Nairobi
    Sasini House, Loita Street

19. Equity Bank Ltd
    P.O Box 75104 - 00200 Nairobi
    NHIF Building, Community

20. Family Finance Building Society
    P.O Box 74145 Nairobi
    Fourways Towers, Muindi Mbingu st

21. Fidelity Commercial Bank Ltd
    P. O. Box 34886 Nairobi
    I.P.S Building, Kimathi Street

22. Fina Bank Ltd
    P. O. Box 20613 - 00200 Nairobi
    Fina House, Kimathi Street

23. Giro Commercial Bank Ltd
    P. O. Box 46739 - 00200 Nairobi
    Giro House, Kimathi Street

24. Guardian Bank Ltd
    P. O. Box 67681 - 00200 Nairobi
    Main Branch, Moi Avenue, Nairobi

25. Habib Bank A.G Zurich
    P. O. Box 30584 - 00100 Nairobi
    Nagina House, Koinange Street

26. Habib Bank Ltd
    P. O. Box 43157 - 00100 Nairobi
    Exchange Building, Koinange Street

27. Housing Finance Ltd
    P.O Box 30088 Nairobi
    Rehani House, Kenyatta Ave

28. Imperial Bank Ltd
    P.O Box 44905 - 00100 Nairobi
    Bunyala Road, Upper Hill

29. Investment & Mortgages Bank Ltd
    P.O Box 30238 - 00100 Nairobi
    I & M Bank House, 2nd Ngong Ave

30. K-Rep Bank Ltd
    P. O. Box 25393 - 00603 Nairobi
    Naivasha Road, Riruta

31. Kenya Commercial Bank Ltd
    P.O Box 48400 - 00100 Nairobi
    Kencom House, Moi Ave

32. Middle East Bank (K) Ltd
    P. O. Box 47387 - 0100 Nairobi
    Mebank Tower, Milimani Road Nairobi

33. National Bank of Kenya Ltd
    P. O. Box 72866 - 00100 Nairobi
    National Bank Building, Harambee Avenue

34. National Industrial Credit Bank Ltd
    P. O. Box 44599 - 00100 Nairobi
    N.I.C House, Masaba Road

35. Oriental Commercial Bank Ltd
    P.O Box 44080 - 00100 Nairobi
    Finance Hse, Koinange St.

36. Paramount Universal Bank Ltd
    P. O. Box 14001 Nairobi
    Sound Plaza Building, Westlands

37. Prime Bank Ltd
    P. O. Box 43825 - 00100 Nairobi
    Riverside Drive

38. Prime Capital and Credit Ltd
    P.O Box 46559 Nairobi
    Kenindia House, Loita Street

39. Southern Credit Banking Corp. Ltd
    P. O. Box 66171 or 11666 Nairobi
    Off Muranga Road

40. Stanbic Bank Kenya Ltd
    P. O. Box 30550 - 00100 Nairobi
    Stanbic Bank, Kenyatta Avenue

41. Standard Chartered Bank (K) Ltd
    P. O. Box 30003 - 00100 Nairobi
    Stanbank House, Moi Avenue

42. Trans-National Bank Ltd

    P. O. Box 34353 - 00100 Nairobi

    Transnational Plaza, Mama Ngina Street

43. Victoria Commercial Bank Ltd

    P. O. Box 41114 - 00100 Nairobi

    Victoria Towers, Kilimanjaro Avenue, Upper Hill

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY