A SURVEY ON OUTSOURCING OF SELECTED FINANCIAL ACTIVITIES BY PUBLICLY QUOTED COMPANIES IN KENYA.

BY

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DECLARATION

This research project is my original work and has not been submitted for degree in any other University.

Signed:.. Date: 28/02/2001

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

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EPILOGUE

"When something can

be read without effort,

a lot of effort has gone into

its writing."

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Lists of Abbreviations

BPO	-	Business Process Outsourcing
FAQ	-	Frequently Asked Questions
IT	-	Information Technology
ITO	-	Information Technology Outsourcing
IO	-	The Outsourcing Institute
NSE	-	Nairobi Stock Exchange
OMSG	-	Outsourcing Mission, Strategy and Goals
PwC	-	PricewaterhouseCoopers
RFI	-	Request for Information Sheet
RPF	-	Request for Proposal form
SLA	-	Service Level Agreement
USA	-	United State of America
www	-	World Wide Web

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DEDICATION

To **Mum** and **Dad**,

for instilling in me a sense of hardwork

and perseverance at early childhood.

For their love of education, and having forgone so

much to give me a profound base in world of academic.

TRULY, you invested in the right but risky venture.

To all "The Kinyuah's",

for the immense encouragement,

patience and support throughout

the course of my education life.

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My most sincere gratitude goes to my parents, Wangui and Kinyuah and the entire family for their support, encouragement and dedication to my well being. I find no words to thank them for their valuable support.

Finally, I wish to register my appreciation to all my comrades for the good company we had. For those who have made contribution to my life and their names are not here, I register my appreciation and thanks to all of you. Most of all, to God. All praise and glory is to Him, who provided guidance and infinite support to the success of the whole programme especially, this project.

ABSTRACT

The primary objective of this study was to investigate the extent of outsourcing of financial activities in Kenya. The rationale of the study arose from the fact that, current challenging and ever-changing business environment calls for management attention to focus on their core competencies to create sustainable and competitive edges. Outsourcing was studied as one of the techniques that could assist management to focus on core business.

To facilitate this study, the population of active companies quoted in Nairobi Stock Exchange was studied. The respondents gave information on benefits, motives and reasons for and against outsourcing of selected financial activities through a self administered questionnaire.

The results indicate 46.9% of respondents practise outsourcing where the main activity outsourced is tax compliance. The main reason for outsourcing is to take advantage of external expertise and experience available in the market so that the company can focus on its core business. Those companies that do not outsource indicated outsourcing being expensive in terms of financial costs.

These results should be interpreted in consideration that all sampled companies are large companies who have been in operation for a long duration.

Chapter One

INTRODUCTION

1.1. Background of problem

> *"The true cup of business success is not to be found in adopting the latest efficiency technique. Rather, it consists of understanding your business and making the various parts work smoothly together".* (Prevost, 1992).

In a move towards having perfect organizational structure, a lot of changes are carried out as management efforts to reduce costs and improve operating efficiency. This organizational restructuring is known by many names for example, reorganization, right sizing, reengineering, delayering and it is accomplished using different techniques like process analysis, total quality management and facilities management, among others (Pearce and Robinson, 1997). Prevost (1992) notes that, even after restructuring, some organizations experience some short term cost reduction, little change in market penetration, declining employee morale and gradual creep up of total payroll through new hires. As a result, they find themselves right back where they started within a few years.

Kenya has not been left out in the new wave of globalization. Globalization in international business may be defined as widespread establishment and operation in one or more countries of manufacturing and/or marketing procedures with ownership and supervision generally originating through a parent company housed in another country. (Ball and McCulloch, 1993). This widespread movement is aimed at reaping sales and profits unavailable to their home market.

In 1992, the Kenya government prepared the ground for globalization by initiating liberalization and privatization policies (Aseto and Akelo, 1996).

Capital Market Authority (1997) defines privatization as "an act of transferring government owned assets into private hands or general public either through public offering, tendering system or private contract". Aseto and Akello (1996) assert that privatization is based on neoclassical hypothesis that private ownership brings greater efficiency and more rapid growth. Privatized firm responds more better to price incentives and improve both internal and allocative efficiency. Liberalization creates competition since government protections are reduced or eliminated.

Globalization and liberalization have resulted to presence of new firms in the market. With opening up of the economy, foreign firms have entered the local market. Intense competition has resulted with new entrants bringing new capacity, and often, substantial resources. Intensive advertisements and growth in general awareness has made consumers knowledgeable. With increased product choice, buyers are likely to shop for a favourable price and to purchase selectively.

Rivalry among existing competitors result when one or more competitors either feel the pressure or view the opportunity to improve his position. In most industries, competitive moves by one firm have noticeable effects on its competitors and thus incite retaliation or efforts to counter the move. Industrial development has also been observed where new firms spring up within the industry while existing firms spread to other industries. Of much importance is the increased focus by firms on their core business. Companies have defined which business they are in, through practice of strategic management. Once the business is defined, firms have directed their resources to their core competence and being market oriented, they have focused on these competencies. In addition, cost reduction policies have been applied through process innovations that lower production costs, product redesigning to reduce number of components, and reduction on corporate overheads costs.

Outsourcing is a technique that assists both in reducing costs and in focussing on core business. Writers on outsourcing have expressed two schools of thought that are closely related. One school advocates that any activity that does not yield to core competence of an organization should be outsourced. An organization evaluates its core skills, which are the critical capabilities it has as a whole, distinct from the capabilities of individuals within it. These core skills are developed to core competencies, which can be defined as distinctive capabilities that give the organization, unique competitive advantage. Core competencies are characterized as being invisible to competitors and difficult to imitate. They are unique to the corporation being a mix of skills, resources and processes and offer capability, which the organization can sustain over time. (Tampoe, 1994).

In this school, outsourcing is practiced as a technique to allow organization focus on its core skills. The major goal is to have management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm, an edge in the market. Focusing on core activities ensures the collective learning, especially on how to co-ordinate diverse production skills and integrates multiple streams of technologies (Prahalad and Hamel, 1990)

The other school advocated by scholars like Jathanna (1992) and Willey (1993) present outsourcing as a technique of reducing costs and freezing out management time. As in the first school, organization divides the activities into core and non-core activities. Core activities which enhances core competence, cannot be outsourced while non-core activities that usually require generalized skills practiced across the industry are considered for outsourcing. These non-core activities are further classified between those that can be done away with and those that will prevail as long as organization is a going concern. The latter are of major concern since they do not add much value to the organization products but have to be performed. Advocates of this school argue that, such activities should be exposed to market forces so that their performance is improved to the highest efficiency with minimal cost incurred. Competition in performance of these activities is between in-house staff and external vendors. Where in-house staff perform these activities better than external parties, the activities are not outsourced. Jathanna (1992) notes that, its not possible for organization to be expert in all activities it performs. Those activities where it is inefficient or require expertise skills that organization do not have are the one to be outsourced.

The first school of thought argues that, even when the firm is not in a given industry but has distinctive capabilities to join that industry, it should not hesitate to join because of competition. The second school is for firms within the competitive industry, which intend to reduce costs and focus on core activities. The two schools are highly related in that both focus on increasing shareholders wealth. Profitability is enhanced by increasing earnings and reducing costs. The first school advocates that firms should increase earnings by focusing more on their distinctive capabilities but when they outsource to achieve this goal, they are equally reducing costs since they choose the 'best' vendor with a lower cost and better performance.

1.2 Statement of problem

A cross section of financial and other business reports for 1998 Financial year indicated overall drop in turnover and profit, loss of market share and temporary halt in production. In 1998 financial year, Bamburi Portland cement reported a 60% drop in profit before tax and a market share decline to 62% despite a rise in demand for cement with boom in construction industry (Bamburi Portland Cement, Annual report 1999). It attributed the decline to competition. Bata shoes limited closed nine of its branches countrywide due to severe competition from second hand imported shoes, new firms joining the industry as well as increased presence of individual craftsmen businesses (Sokoni, 1999). This increased competition raises the need to focus more on core business. Different organizations have adopted different strategies to respond to turbulent competitive environment. Kenya Power and Lighting Company has adopted Business Process Reengineering while Firestone Company attempted Total Quality Management system (Thiga, 1999). Implementation of such strategies has been through diverse techniques with varied results. Some organizations faced with similar conditions in USA and Europe did outsource some non-core activities to reduce costs and ensure focus on core competence activities. They outsourced to reputable vendors who offered a high quality service and at a lower cost due to their specialization and economies of scale respectively (Huber, 1993 and The Outsourcing Institute, www.Outsourcing.com/). A survey that was conducted in USA in April 1999, revealed that, of companies that outsource, 70 percent claimed to save money and 25 percent had improved focus on core business (PwC, www.barometersurveys.com/).

This study is an attempt to find out if companies facing similar market conditions in Kenya portray a similar response. Specifically, whether companies outsource selected financial activities as a way of reducing cost of performing them while increasing focus on core business. The study integrates the two schools and focuses on outsourcing of selected financial activities which require professional skills to perform, on companies where such activities are not core activities.

1.3 Objectives of study

Objectives of this study are

1. To document existence and extent of outsourcing of selected financial activities in Kenya.
2. To find out the perceived benefits and problems associated with outsourcing
3. To establish important considerations in selection of outsourcing vendor.

1.4 Importance of the study

1. Local and multinational firms. Through this study, these firms will be made aware of financial activities that they can outsource. The study will draw an insight of possibility of outsourcing non-strategic activities as well as sensitize on the benefits and limitations of outsourcing.

2. Accounting firms and management consultants. The study will benefit them in knowing outsourcing services sought by organizations and possibly learning how they can assist in evaluating which activities to outsource.

3. Academia. This study is expected to stimulate interest among academicians and encourage further researches on outsourcing even in other business processes. It will also add to a body of knowledge.

1.5 Justification of the study

Outsourcing is viewed as one of techniques that can reshape organization to focus on its objectives. A firm concentrates its efforts and resources in activities that are geared toward its goal. No study has been done in Kenya to evaluate whether the practice is in place and its effectiveness in reducing overall costs and enabling firms to focus on key activities.

This study centres on outsourcing of four particular financial activities: tax compliance, payroll, general accounting practice, and financial statements preparation. In Kenya, Income Tax Act, Cap 470 and other tax related acts are subject to amendments by finance bill generated each year in June and other minor budget statements (Income Tax Act, Cap 470, 1999). Such amendments include changes in tax rates, tax bases, introduction of new taxes (e.g. Value Added Tax in Finance bill of 1989), resumption of previously relaxed taxes (e.g. Resumption of presumption tax in Finance bill of 1999), new definitions of taxable goods and services, and abolition of tax and tax reliefs (e.g. abolition of insurance relief in finance bill of 1999). Tax compliance is made complicated by these continuous amendments and a firm may find it difficult to keep up with these requirements. Current taxation system involving different direct and indirect taxes may compel a firm to seek external expertise. A firm besides paying the different taxes like income tax, value added tax and excise duties, is entrusted as an agent of tax authority to collect some taxes, arising from business transactions with other related bodies. Such taxes include collection of pay as you earn (PAYE) from employees on behalf of Kenya Revenue Authority, presumption tax on agricultural produce and tax on management consultancy fees. All these complicate tax compliance activity calling for a need for outsourcing.

Payroll activity has two characteristics that make it suitable for outsourcing. First, a firm may practice discriminative payment system whereby some employees are paid higher for equal work performed. There may be a need to have confidentiality to avoid organisational disturbances that may arise if such information is made public. Secondly, volume of payroll activity is high and there are complications arising on deductions to be made at point of payment. Withholding taxes for example, have to be deducted from employees' income before net pay is delivered. Outsourcing eliminates these complications while maintaining confidentiality especially to a firm that has manual payroll system.

For large companies, general accounting practices and preparation of financial statements may be outsourced 'conveniently' to certified public accounting firms

Chapter Two

LITERATURE REVIEW

2.1 Definition and evolution of outsourcing

Outsourcing is based on the notion that strategies should be build around core competencies that add value and activities that add little value or that cannot be done cost effectively, should be done outside the firm (Pearce and Robinson, 1997). In today's world of business, top management must articulate the goals and objectives of their organizations and communicate how different processes and activities will benefit the organization (Tarsh, www.OutsourcingJournal.com/). Management as stewards entrusted with shareholders' resources may restructure the firm to have a more defined focus of what it intend to achieve and with time, maximize shareholders value. When business is being restructured from a business process orientation, numerous activities can be found that are not "strategically critical activities." Such activities either add little or no value to the product or services, but are either unnecessary or they can be done much more effectively and competitively by other businesses specializing in these activities.

Different definitions have been used on outsourcing. Jathanna (1992) defines outsourcing as contracting out these non-strategic operations to a third party. To this definition, Pearce and Robinson (1997) add that, it involves use of a source other than internal capacity to accomplish some tasks or processes. This study adopts definition of The Outsourcing Institute (www.OutsourcingAcademics.com/) which states that, *"Outsourcing is the strategic use of outside resources to perform activities traditionally handled by internal staff and resources."*

The institute further differentiates outsourcing from contracting out. Contracting is when a company (buyer) purchases goods or services from another company (Supplier or vendor) and in such situations, the buyer informs the supplier, exactly what he wants and how he wants the supplier to perform those services. In such situations, the buyer "owes" and controls the process. In outsourcing, the buyer turns over the control ("ownership") of the process to the supplier. The buyer informs the supplier what results he wants the supplier to achieve (e.g. Financial statements in accordance with Company's Act and International Accounting Standards), but the supplier decides how to accomplish those results through his expertise in certain processes and economies of scale. Suppliers add value to performed task through expertise and economies of scale (OI, www.OutsourcingFAQ.Com/).

Outsourcing started with companies buying physical parts. Outsourcing of parts manufacturing was and is mainly done when the firm has high demand for the parts but it is fully utilizing its physical (operating) capacity such that it cannot meet the excess demand or it will meet the demand at costs higher than when the parts are manufactured outside. (Quinn, www.OutsourcingAcademics.com/).

Development of Information Technology (IT) industry saw growth of Information Technology Outsourcing (ITO). Jathanna (1992) notes that,

> *"When computers become part of business environment in the 1960s, the cost of data processing in-house was enormous, forcing companies to buy computer time from outside bureaux".*

IT outsourcing is mostly on technology and hardware. Organizations find it costly to keep up with emerging technologies and prefer to outsource to specialist providers. (OI, www.outsourcingFAQ.com)

Business Process Outsourcing (BPO) has evolved after ITO. Whereas ITO is mostly on technology and hardware, BPO is on human intellect. It seeks access to personnel who have specialized skills. To a firm, it may be both expensive and difficult to attract and retain such personnel. Alone with skills, the buyer gains provider's depth of experience and the ability to perform at market rate. These intellectual based activities are, human relations, finance and accounting and marketing research among others. (Quinn, www.OutsourcingAcademics.com/). Barnsley (www.OutsourcingAcademics.com/) defines Business Process Outsourcing as

> *"Taking those processes (for example – finance and accounting, the human resource process, logistics etc) out of the organization and into an organization with far superior skills in those processes."*

This definition is similar to that of PwC (www.barometersurveys.com/). Large (1999) states that, BPO is not same as Business Process Reengineering nor is it the same as setting up a shared service center run by the company. In BPO, the

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This definition is similar to that of PwC (www.barometersurveys.com/). Large (1999) states that, BPO is not same as Business Process Reengineering nor is it the same as setting up a shared service center run by the company. In BPO, the supplier not only takes on the responsibility over the function or the business process, but he also re-engineers the way such a function is done. This is done either in using new technology to accomplish the outsourced activity, or in applying the existing technology using a new way to improve performance of the activity. (OI, www.OutsourcingAcademics.com/).

According to Jathanna (1992), outsourcing is geared toward competitiveness in selling goods in the world market as the world moves toward global economy. With BPO, a company's overarching objective should be to maximize flexibility and control (Lacity et al, 1995). Peisch (1995) notes that the objective of BPO is to focus management on core competencies and to expose certain activities to the competitive pressures of their own market place, ensuring that they are performed to the highest quality and with most efficient means possible.

Opening up of global market has seen outsourcing as a transformation tool to address the competitive pressure of global economy, fast changing technologies and Institutional investors who demand a focused management that delivers bottom line results (Greaver, www.OutsourcingAcademics.com/).

Millstein (www.outsourcingAcademic.com/) views that, for a successful outsourcing process, the first step is for the buyer to fully understand the reasons for outsourcing. Buyer and seller have to take time and understand the objectives of each other. The ensuing discussion should result to a document that maximizes the partner's ability to secure the rewards of outsourcing and minimizes the risk to each party. It is equally important to have executive support who give the final accent for contract to be sealed. Successful BPO focus on results, which must be objective, measurable, quantifiable and comparable against pre-established criteria. Studies done by The Outsourcing Institute revealed and ranked key factors considered for successful BPO as summarised below.

Table 2-1 Factors considered in successful BPO

RANKING	ATTRIBUTE
1	Understanding company goals and objectives
2	A strategic vision and plan
3	Selecting the right vendor
4	Ongoing management of the relationships
5	A properly structured contract
6	Open communication with affected individual/groups
7	Senior executive support and involvement
8	Careful attention to personnel issues
9	Near term financial justification
10	Use of outside expertise

Source: The Outsourcing Institute, 1998. (www.outsourcingResearch.com/)

The Outsourcing Institute (www.outsourcingAcademic.Com/) advises on situations where objectives to outsource are not clearly defined;

"Outsourcing is not an excuse to wash management's hands of a poorly managed, costly, or misunderstood function. Understand the costs of a function and manage it effectively before evaluating its potential for outsourcing. Otherwise, you may decide to outsource for the wrong reason giving the outsourcing vendor gains you could have reaped, and starting a relationship that will be unsuccessful and end painfully."

(www.outsourcingAcademics.com,
'Effectively managing outsourcing relationship')

Blumberg (www.OutsourcingAcademic.Com/) gives a summary on how BPO should be made successful from a strategic point of view. He recommends development and documentation of a preliminary Outsourcing Mission, Strategy and Goals (OMSAG) statement. According to him, an OMSAG statement is

"A document that sums up the organizations outsourcing intentions and the strategic rationale of outsourcing. It describes the:

- *Processes to be outsourced and the broad objectives for outsourcing.*
- *Relationship of outsourcing to the overall corporate strategy.*
- *Links between the outsourced process and the company's core competencies.*
- *Strategic forces that are driving the organization into a relationship.*
- *Critical risks involved.*
- *Expected duration of the relationship."*

2.2 Reasons for outsourcing

Outsourcing may be appropriate when demand for a particular service is variable or when skills or technologies associated with the delivery of service are about to change or become obsolete.

Different surveys on why organizations outsource give different 'top five reasons to outsource' as explained by Greaver (*www.OutsourcingAcademics.com/*), who notes

"If Chief Executive Officers are surveyed, the results on why companies outsource some services are different from those of Chief Financial Officers who are surveyed, and those results are different from Chief Internal Operations Officers and others who are surveyed."

These reasons may also vary with industrial category which surveyed firms belong to and time as business environment keeps changing. Outsourcing Institute gives reasons for this as summarized below.

Table 2-2 Reasons for outsourcing

RANKING	REASON FOR OUTSOURCING
1	Reduce and control operation costs
2	Improve company focus
3	Gain access to world-class capabilities
4	Free internal resources for other purposes
5	Resources are not available internally

Source: *The Outsourcing Institute (USA) 1998. (www.OutsourcingResearch.com/)*

Pearce and Robins (1997) notes five strategic reason as

1. *"Improve business focus*
2. *Access to world class capabilities*
3. *Accelerated re-engineering benefits*
4. *Shared risks*
5. *Free resources for other purposes."*

These reasons were also identified by Large (1999). The single most compelling reason is to redirect focus from several "how issues"[1] that siphon off huge

1. These are non-core activities that do not add much value to the organization yet calls for much attention and resources (Pearce and Robinson, 1997)

amounts of management resources and attention to core business activities that differentiate organization.

Bendor (www.OutsourcingJournal.com/) concludes that, outsourcing clients should do a thorough internal analysis, make it clear what is it they want outsourced, why they have chosen that particular function, how the outsourcing of that function will impact other facets of their operation, and what results they expect from the outsourcing of that function. This information must be clearly communicated to the vendor, along with the customer expectations of levels of services to be provided.

2.3 Benefits of outsourcing

Large (1999) identifies benefits of outsourcing of finance and treasury services as freeing up senior management staff to use information rather than generating it and achieving economies of scale by reducing overheads and operating costs. Outsourcing might be justifiable for a department with high costs or one which lacks competency in specific areas.

Willey (1993) notes more benefits of outsourcing as;

1. *"creation of better balances of workforce*
2. *reduction on capital investment*
3. *enabling the firm to benefit from supplier's innovation."*

In balancing workforce, Mintzberg and Quinn (1991) note that, BPO leads to a more compact organization which leads to a much sharper focus on recruiting, developing and motivating the people who create more value in those areas where the company has special competencies. Quiree (1999) adds that, it reduces and sometimes eliminates initial set up time and high overhead costs in setting up department or division to oversee and perform non-core activities. BPO is also noted as a way of improving customer satisfaction through seeking expertise from people with specialized skills.

> *"As companies begin to outsource, they often discover important secondary benefits. Other internal costs and time delays frequently drop as long-standing bureaucracies disappear and with strategic focus on core activities, many individual services/activities spring off."*
>
> *(Mintzberg and Quinn 1991).*

Sometimes by checking outside sources, companies discover the uniqueness and power of their own capabilities. Jathanna (1992) reports that the presence of an outside contractor on the premises reminds employees about the yardstick that is clear and visible. Employees therefore, have to make sure they deliver whatever services are being required of them in the most efficient way possible.

2.4 Risks and Limitations of outsourcing.

A firm even after outsourcing should maintain command of those outsourced activities. There is need for adequate control to ensure both the vendor and the customer are protected from any non-approved action (Queree, 1999). It should be made clear that outsourcing involves delegations of tasks and activities but ultimate responsibility, authority and decision making process remain with organization.

A possible mismatch may occur between the skills selected for emphasis today and those required in the future. Loss of critical skills and developing the wrong skills is among most often mentioned concern (Quinn, 1992). Skills required currently in an organization may lack since activities where such skills were applied were outsourced. A company may wish to perform internal tax planning to reduce tax liability and exploit loopholes in tax-related Acts but once tax compliance activities are outsourced, such skills may take time and be costly to re-introduce in the organization.

Loss of control to a supplier may occur when supplier's priorities do not match those of the buyer. When priorities conflict too much, some suppliers are observed to pull out causing loss of business (Quinn, 1992). The vendor may also fail to improve performance or achieve projected financial benefits. This occurs especially when a firm's main objective of outsourcing is cost reduction.

Failure in an outsourcing relationship occurs when the buyer lets the supplier dictate what the services and performance levels will be. The buyer does not completely describe the scope and boundaries of every component of the outsourced service (OI, www.outsourcingFAQ.Com/). This can lead to a supplier providing something that was not agreed upon and then charging a premium, or the supplier not providing something the buyer assumed it would be getting for the price it is paying. For example, in an outsourced financial reporting function, the buyer must adequately describe the scope of services the supplier is to provide (does it include accounting data accumulation, transaction processing, preparation for purposes of income tax, prospectus and annual general meeting?).

Jathanna (1992) notes that a bit of turmoil may occur when a firm decides to outsource operations that were previously performed in house. This is especially noted among employees who have built fiefdoms (Greaver, www.outsourcingAcademics.com/). Staff morale drops when informal groups are broken and some employees are forced to leave organization (Huber, 1993). It was noted by Mintzberg and Quinn (1991) that when BPO becomes successful, some firms become overly dependent and dominated by the vendor. Some even exposes their critical activities. Qualities of services may drop in latter years on long term contract. To this, Jathanna (1992) suggests review of benefit periodically to identify any shortcomings and adjust them accordingly.

In some departments like finance and accounting, and human resources, loss of personnel who have been trained in the organization's particular business practices may occur. Organization may have committed large amount of resources to develop these personnel but once their function is outsourced, they are laid off. In future, should the firm decide to insource such functions, personnel of equivalent competence may lack especially those acquainted with organization's culture and development.

The greatest risk and limitation of outsourcing is decline and subsequent loss of competitiveness. Rowe et al (1994) argue that, some vendors gain experience and exposure on core activities and establish owns business to compete. This occurs mostly when substantially non-core activities are outsourced to a sole vendor and firm is loosing control of outsourced activities or becoming too dependent to expose core activities. Peisch (1995) suggests that to overcome these limitations, outsourcing firm should prepare a list of the requirements it is trying to satisfy through the engagement along with the detailed list of expectations. These lists assist both in gauging performance potential of outsourcing vendor and act as a measure of firm's success in meeting its objectives. He cautions management to note that managing external resources require an entirely different set of skills from managing the same services internally.

Computerworld (1996) offers a summary on risks and limitations of outsourcing noting that,

> *"Outsourcing relationships fall for many reasons. Chief among them are unrealistic expectations; lack of a formal bid process; so-called relational contracts that assume the vendor will act as a strategic partner but that fail to spell out the details; and failing to manage the relationship once the contract has been signed".*

As outsourcing takes hold as a powerful and strategic business management tool, the contract agreement between parties becomes more important and complex than ever before. (Computerworld, 1996).

2.5 Evaluation of activities to outsource

In making decision to outsource, Peisch (1995) notes the important consideration is to know what the firm is buying and why. Large (1999) and Greaver (www.outsourcingAcademics.com/) concede that evaluating what process to outsource is a complex task of distinguishing core and non-core activities. According to Greaver (www.outsourcingAcademics.com/), core competencies are the innovative combinations of knowledge, special skills, proprietary technologies, information and/or unique operating methods that are well integrated into the processes that provide the product/service benefits that customers'value and want to buy.

Willey (1993) characterizes core or strategic service activities as those that:

1. *"Identify the companies or business unit core competencies*
2. *Ensure that the competencies are continually being strengthened*
3. *Manage the competencies in such a way that best preserves the competitive advantage they create"*

Strategic activities giving core competencies should not be outsourced as they give the firm a continuing strategic edge and long-term streams of new products to satisfy future customer demands. (Quinn 1992 and Jathanna 1992).

Non-core activities are identified as other activities other than core-activities, which cannot be eliminated within organization. These activities support neither core competence nor add much value. (Jathanna 1992, Pearce and Robinson 1997, Lacity et al 1995). Jathanna (1992) suggests that, for these activities, firms should neither be experts in nor do they have to train own staff so that they can have these functions done in-house. Although a major goal of outsourcing is to reduce cost, it is not always essential to have the apparent cost advantage but sometimes, simply breaking even is attractive as it is not necessary to spend energy doing something that is not vital to the core business. However, consideration should be made on availability of skills in house and the cost of training and maintaining the skills verses cost of outsourcing.

The issue on whether to outsource should be part of a larger one regarding how the functions being evaluated fit into the organization. As part of the outsourcing evaluation criteria, The Outsourcing Institute (www.outsourcingAcademics.com/) notes that, the following questions should be answered.

- What are our core competencies?
- Which services or corporate support functions are not integral to or close to our core competencies?
- What are the barriers raised by the corporate culture?
- Can we fix ourselves internally before we consider outsourcing?
- What might be better accomplished by an outside vendor?
- What are the goals we want to achieve from outsourcing?
- What kind of relationship with a vendor is most appropriate?
- How do we deal with the people issues?

A research conducted by Blumberg (www.outsourcingAcademics.com/) of Warren Company in USA found that, companies that had established closely aligned operations with vendors were outsourcing vital activities to the operations of their core functions. (e.g. A bank was observed to outsource its credit card processing to a credit services organization.) This has resulted into two emerging types of relationships.

1 "Sharing core activities." This is a relationship in which a company conducts activities that are vital to the operation of its core processes in a highly integrated relationship with an outsourcing partner. Though the company exposes its core activities, the contract signed should be well designed to protect especially the buying company from vendor who may communicate, at any one time, any information known to them by reason of the contract which has not been made public to the detriment of the client. The vendor must exercise the utmost discretion in all matters of official business of the client.

2 "Expanded core activities", involves the creation of new competencies and capabilities through a partnership or joint venture. Through exposing competencies to the vendor, the two firm's work jointly to develop new competencies where they may end up with a product marketed for mutual benefit. One bank was observed to have outsourced parts of accounting function. Later, both client and vendor developed application software to handle the function and made it available to the market for other banks (Huber, 1993).

These types of relationships require tightly integrated operations and a fully strategic, long-term partnership between the companies. Often, companies have concerns about protecting and maintaining their core competencies in such arrangements. A number of legal protections are available to minimize such vulnerability, like patents, copyrights and non-disclosure, but studies show that, fear about loss of control is most effectively overcomed by developing a sourcing relationship based on trust, mutual benefit and clear alignments of interests (Blumberg, www.outsourcingAcademics.com/).

2.6 Methodological approach to outsourcing

Once the non-core activities to be outsourced are identified, there is a need to define the objectives to be achieved. The Outsourcing Institute warns that:

> *"Outsourcing must be done carefully, systematically, and with explicit goals. Companies that rush into outsourcing without fully understanding what they want to gain may find themselves mired in a contracted battle with a chosen vendor or the recipient of services that worsen rather than improve."*
>
> *(www.OutsourcingAcademics.com 'Why is outsourcing sometimes not successful')*

The Institute (www.outsourcingAcademics.com/) recommends that implementation of outsourcing decision be systematically conducted and documented through observance of the following phases:

Planning phase. The objectives and scope of the outsourcing idea are defined and the feasibility of outsourcing is determined before a decision to proceed. The effort is planned in terms of time, budget and resources needed.

Analysis phase. Baselines are determined and service levels required of vendors are specified. Proper interface is laid down between functions to be outsourced and those to remain in-house. The request for proposal is developed, responses are collected from vendors and analyzed, and a vendor is chosen.

Design phase. Negotiations proceed with selected vendor and a contract is developed and signed.

Implementation phase. The transition from in-house provision of services to vendor is made.

Operations phase. The outsourcing relationship with the vendor is managed and any maintenance or changes in the outsourcing relationship are negotiated and implemented.

Termination phase. At the end of the contracting period, the decision is made to negotiate another contract with the vendor or a new vendor and the cycle begins again. Alternatively, a decision is made to bring the function back inside the organization.

Millstein (www.outsourcingAcademics.com/) adds that outsourcing must contain a detailed description of services to be performed in a 'services schedule' or 'statement of works.' to avoid dispute as to whether a particular request is outside the scope of the contracted services.

2.7 Selection of vendors

The outsourcing market is competitive; suppliers have to compete not only with each other but also with existing in-house services (Large 1999). Jathanna (1992) notes important considerations in selection of vendor as

1. *Going concern of the vendor. The vendor's life should be up to foreseeable future.*
2. *Particular skills. The vendor should have particular skills required to perform activities to be outsourced.*
3. *Sole supplier. If the vendor is the sole supplier of a particular skill, firm has to be careful in assessing risk due to absence of competition.*
4. *Size of vendor. A vendor whose numbers of employees are few may have strong skills vested entirely in one individual leaving the firm vulnerable.*

A survey conducted by The Outsourcing Institute on companies that outsource in USA revealed and ranked essential factors in vendor selection as summarized below

Table 2-3 Considerations in selection of vendors

RANKING	CONSIDERATION
1	Commitment to quality
2	Price
3	Reputation
4	Flexible contract terms
5	Scope of resources
6	Additional value-added capability
7	Existing relationship

Source: The Outsourcing Institute 1998.
(www.outsourcingResearch.com/)

There are two notable approaches in selection of vendors; these are sole sourcing and procurement through request for proposal. In sole sourcing, a client firm approaches a vendor and upon negotiation, appoints it to perform a service instead of going out to competitive bid. According to Young (www.OutsourcingAcademics.com/), sole sourcing enables client firm to seek vendors with culture compatibility not just size of the deal or the marketing value as in competitive bidding. The firm can negotiate with vendors sequentially until it find a fit – if the first choice fails, it proceeds to second choice and so on. Where there is no fit with a single vendor, a client can force vendors to cooperate forming a consortium or alliance with each vendor. In addition to eliminating the extra work it takes to sort out a multitude of proposals in competitive bidding, sole sourcing can be done confidentially. A potential problem with sole sourcing is in having due diligence in finding the right vendor and making sure there is no suggestion of a lack of fiduciary responsibility. Young (www.OutsourcingAcademics.com/) advises firms to consider the "Three R's" – References, Relationships and Reputations if sole sourcing is to be beneficial. In sole sourcing the process involves evaluation of Request For Information (RFI) forms, which allow firms to compare one vendor against another based on technologies, capabilities, processes and references.

Request for Proposal (RFP) is the traditional approach that has been used in competitive bidding among potential vendors. An RFP is created in the format of the day (no conventional standard) and distributed to several service providers or placed in public information system. Service providers supply a response (specific or vague depending upon how the questions were asked), client firm do an evaluation, create a short list, visit service providers facilities and reference sites, make a selection and then the work begins (Campbell, www.OutsourcingAcademic.Com/). RFP approach has been criticized by writers as extremely costly and time consuming (Young, www.OutsourcingAcademics.com/ and Campbell, www.OutsourcingAcademics.com/). The client hopes a vendor understands what RFP requires in order to respond appropriately. The specifications of the potential outsourced function must truly be captured in RFP to make it useful.

2.8 Current studies in Business process outsourcing

2.8.1 The Outsourcing Institute, 1998.

The institute conducted a study on activities that executives were currently outsourcing or considering outsourcing in the United States. The results are summarized below:

Table 2-4 Summary of activities outsourced (1998) and under consideration

Activity	Executives currently outsourcing	Executive are considering outsourcing
Operation (Administration)	1. Printing and reprographic 2. Mailroom 3. Consulting and Training 4. Purchasing	1. Administration information systems maintenance 2. Supply/inventory 3. Records management
Finance	1. Payroll processing 2. Transaction processing 3. General accounting	1. Taxes 2. Payroll processing
Human resources	1. Relocation 2. Workers compensation 3. Recruiting/staffing	1. Consulting and training 2. Human resource information systems
Real estate and physical plants	1. Food and cafeteria services 2. Facilities maintenance 3. Security	1. Facilities management 2. Facilities maintenance
Sales & Marketing	1. Direct mail 2. Advertising 3. Telemarketing	1. Field sales 2. Reservation and sales operation
Logistics (Distribution)	1. Freight audit 2. Freight brokering 3. Leasing	1. Warehousing 2. Distribution and logistic 3. Operations
Transport	1. Fleet management 2. Fleet operations 3. Fleet maintenance	1. Fleet management 2. Fleet operations 3. Fleet maintenance
Information technology	1. Maintenance/repair 2. Training 3. Applications development 4. Consulting and re-engineering	1. Client/serve networks 2. Networks 3. Desktop system 4. End – user support 5. Full IT outsourcing

Source: The outsourcing institute membership, 1998. (www.outsourcingResearch.com/)

2.8.2 A survey by PricewaterhouseCoopers, April 1999.

This study's respondents were top decision-makers (Chief Executive Officers) at United States of America's largest corporations. The conclusion arrived at was that more companies were embracing BPO as a way of improving performance and profitability. According to industry estimates, the global BPO market in 1998 was valued at eighty billion USA dollars and was projected to grow to two hundred billion US dollars in 2003.

The key findings of the study (PwC, www.barometersurveys.com) were, of executives interviewed, 73% said their companies outsourced one or more business processes and they believed:

1. BPO allows companies to focus on their core competencies (92%)
2. BPO enables companies to increase efficiency without having to invest in people and technology (89%).
3. BPO helps companies become more profitable, leading to increase in shareholder value (78%).
4. BPO leads to better service levels than internal departments can provide (57%)
5. BPO benefits in maintaining a competitive edge (73%).

2.8.3 A survey by Corporate Finance Journal, September 1999

This study was carried out on vendors to establish specifically, financial and treasury activities they undertake. Three major classifications of vendors were established; certified public accounting firms, global banks and specialist suppliers. The results are tabulated below:

Table 2- 5 Selected treasury outsourcing vendors

Vendor Services		Financial transactions			Cash management service			treasury management services	
	General ledger services	Accounts Payable Services	Account receivables	Bank a/c balance transactions and transaction data	Foreign exchange management Exposure	Liquidity management services	Investment management	Liability management	Risk management services
ABN Amro bank	Component of account receivable and payable services	yes	yes	Yes	Yes	yes	yes	Yes	
Bank of America	yes	yes	yes	Yes	Yes	yes	yes	Yes	yes
Chase Manhattan	yes	yes	yes	Yes	Yes	yes	yes	Yes	yes
Athur andeserse n	yes	yes	yes	Yes	Yes	Negotiable based on restriction	yes		Negotiable based on restriction
Pricewater houseCop pers	yes	yes	yes	Underdeveloped	Yes	Yes			

Source: Corporate Journal, USA September 1999

2.8.4 A survey by PricewaterhouseCoopers, March 2000

This study was conducted in United States among America's Fastest growing companies, "Trendsetter companies". Respondents were chief executive officers of 440 products and services companies with revenue/sales range of one million and one hundred and fifty million US dollars.

The conclusion arrived at was that business which outsource were growing faster, larger and more profitably than those that do not. The results of study are shown below:

Table 2 - 6 Results of PwC survey, March 2000

	ALL "TRENDSETTER" COMPANIES	PRODUCT COMPANIES	SERVICE COMPANIES
Business using outside Supplier	**80%**	**81%**	**79%**
Administrative or finance services	69%	70%	68%
Internal operations services	50%	70%	44%
Sales and marketing service	30%	34%	25%
Companies not outsourcing in the past year	**20%**	**19%**	**21%**
% of operating budget spend on outsourcing	8.18%	8.65%	7.70%

Source: PwC (www.barometersurveys.com/)

The table below gives detailed results

Table 2-7 Detailed results of PwC survey, March, 2000.

	Percentage no. of companies that Outsourced a given activity by year		
ACTIVITY	1994	1997	2000
Administration or finance (Net)	**58%**	**65%**	**69%**
Payroll		55%	45%
Employee Investment programs		–	30%
Tax compliance		34%	22%
Internal auditing		18%	13%
Human resources hiring		13%	5%
Asset management		7%	4%
Billing		4%	3%
Internal operation (Net)	**42%**	**47%**	**50%**
Maintenance equipment		19%	20%
Manufacturing/processing/assembly		17%	16%
Security		8%	9%
Research and Development		8%	6%
Distribution/warehousing		8%	6%
Sales and Marketing (net)	**9%**	**38%**	**30%**
Websites management		10%	13%
Market analysis and planning		14%	7%
Customer services		3%	2%

Source: PwC (www.Barometersurveys.com/)

2.8.5 A pilot survey in Kenya

In Kenya, no study relating to outsourcing has been done. However, the researcher conducted a pilot study and found firms do outsource specific services. Nairobi Bottlers, a franchise of Coca-Cola group does outsource market promotions of their products to specialist promotion groups. In 1999, Gaps Promotion Limited conducted a promotion on Krest, a Coca-Cola product. Mumias Sugar Limited in the past has suffered high costs and severe delays on transportation of sugar cane from farmers. The higher costs had been attributed to constant breakdown of tractors, high maintenance cost in workshop, high labour force employed as well as delay of deliveries. The firm from June 1999 resolved to lease out the transportation function to a private firm to reduce costs and enhance delivery. On Financial activities, outsourcing services are mainly offered by Certified Public Accountant firms. From the survey, PricewaterhouseCoopers was noted to have a business process outsourcing centre. Another firm that also supplies outsourcing services is KPMG Peat Marwick.

Chapter Three

RESEARCH METHODOLOGY

This chapter describes methodology used in collection of data or information pertinent to answering the research question. It is divided into research design, population of the study, sample of the study, data description and data analysis methods.

3.1 Research design

This was a descriptive study meant to establish the proportion of companies outsourcing financial activities in Kenya, and reasons, motives and benefits attributed to outsourcing. Churchill (1991) notes that, descriptive study is used when the objective of the study is to estimate the proportion of persons in a specified population who behave in a certain way and describe their characteristics.

The research design used for collecting data was a cross sectional survey carried at a single point in time (June 2000) involving all quoted companies in the Nairobi Stock Exchange. This design is useful in describing the characteristics of companies and determining the frequency of key attribute studied.

3.2 Population of the study

The population of this study comprised quoted companies in Nairobi Stock Exchange as at 1st June 2000. Since the companies engage in diverse economic activities, they provided a greater scope to the research study. Previous studies conducted on BPO were on large companies. For example, PricewaterhouseCoppers (www.barometersurveys.com) and The Outsourcing Institute (www.outsourcingResearch.com). The reason is these companies have large volume of business activities and they outsource for strategic reasons. As at 1st June 2000, 54 companies were listed in the exchange.

3.3 Sample of the study.

Due to expected low response rate, all the listed companies were surveyed, as their number was manageable. The complete list of companies is included in appendix 1. The list of the companies is summarized in table 3.1 below.

Table 3.1 Companies listed in the stock exchange on 1st June 2000

CATEGORIES	NO. OF COMPANIES
INDUSTRIAL AND ALLIED	18
FINANCE AND INVESTMENT	13
COMMERCIAL AND SERVICES	14
AGRICULTURAL SECTOR	9
TOTAL	54

Source: Nairobi Stock Exchange

Africa Lakes Corporation is a multinational company that is listed but does not conduct any activities in Kenya. Its subsidiary in Kenya, Africa OnLine was included as representative. Questionnaires were addressed to corporate finance personnel specifically finance managers.

3.4 Data description and collection methods.

In line with suggestions of Saunders et al (1997), for cross sectional studies, a self-reporting, structured and undisguised questionnaire was used to gather primary data. The questions were mainly close-ended to obtain ranking of qualitative data such as extent of awareness on what outsourcing is.

The questionnaire was divided into three sections. Section A contained questions on general information of the firm while section B sought whether the responding company had outsourced any financial activities for the last five years (1996-2000). For those companies who had not outsourced, Question 4 (b) sought the reasons.

The third part was addressed to those companies that had outsourced financial activities. Question 6 required these companies to indicate which activities they had outsourced. Sets of statements were highlighted in Question 7-10. Respondents were required to indicate the level of agreement/disagreement with those statements as reasons, motives, difficulties and risks of outsourcing. Question 11 also with a set of statements was designed to capture key attributes considered by client firms in selection of vendors. These sets of statements designed to capture the objectives of this study were generated from the literature.

3.5 Data analysis and measurement

Questions relating to outsourcing were on an even likert scale. An odd likert scale was avoided, as respondents were perceived to centre their ranking on indifferent scale. Equally, all statements were designed in such a way that respondents either agreed or disagreed and were to indicate the extent of agreement or disagreement. Data collected was tabulated and analyzed using descriptive statistics and a non-parametric test. Descriptive statistics have been used to analyze data on likert scale and was considered appropriate due to qualitative nature of the data. Other studies that have used a similar analysis are Nzule (1999), Osewe (1998) and Minja (1995). Some measures of central tendencies were used to analyze responses to question 6 to 11. Frequency tables and percentages were used to describe the profile of the companies.

Chi-square tests were used to test the independence between ownership, industrial classification and categorization, and practice of outsourcing. The analyses and responses are summarized and detailed in the following chapter.

Chapter Four

DATA ANALYSIS AND RESEARCH FINDINGS

4.1 INTRODUCTION

This chapter contains analysis and findings of the research study. It is divided into four sections. Section 4.2 gives respondents' characteristics while section 4.3 is on demographic analysis of those characteristics. Section 4.4 is on companies that outsource financial activities followed by analysis of those that do not outsource.

4.2 Sample characteristics

4.2.1 Study response

A total of 54 questionnaires were distributed to all companies quoted as at 1st June 2000. Of these, 32 were returned representing a response rate of 59%. This was considered adequate for the purpose of this study.

Companies that are listed at the Nairobi Stock Exchange are grouped into four categories; Industrial and Allied, Finance and Investment, Commercial and Services, and Agricultural sector. Companies classified under industrial and allied sector had the highest response. A summary is given below.

Table 4-1 Summary of the response and non responses.

CATEGORIES	NO. OF COMPANIES	RESPONDED	%	DID NOT RESPOND	%
INDUSTRIAL AND ALLIED	18	15	83.3	3	16.7
FINANCE AND INVESTMENT	13	8	61.5	5	38.4
COMMERCIAL AND SERVICES	14	5	35.7	9	64.3
AGRICULTURAL SECTOR	9	4	44.4	5	55.6
TOTAL	54	32	59.3	22	40.7

Source: Research data

The results of this study are anticipated to be biased toward companies in industrial and allied category as they make fairly high percentage of response compared to others. Table 4-2 gives a summary of the responses.

Table 4-2 Summary of responses (by industrial categories)

CATEGORIES	RESPONSES	PERCENTAGE
INDUSTRIAL AND ALLIED	15	46.9
FINANCE AND INVESTMENT	8	25.0
COMMERCIAL AND SERVICES	5	15.6
AGRICULTURAL SECTOR	4	12.5
TOTAL	32	100

Source: Research data

4.2.2 Ownership

The study established ownership pattern of respondent companies. Most of the companies that responded to questionnaires were jointly owned (54.5%) while the rest were locally owned. No company that responded was foreign owned. Table 4.3 gives a summary on type of ownership of the respondents.

Table 4-3 Summary of responses (by ownership).

		OWNERSHIP				
CATEGORIES	**NO. OF COMPANIES**	**FOREIGN**	**LOCAL**	**%**	**JOINT**	**%**
INDUSTRIAL AND ALLIED	15	0	6	40	9	60
FINANCE AND INVESTMENT	8	0	2	25	6	75
COMMERCIAL AND SERVICES	5	0	1	20	4	80
AGRICULTURAL SECTOR	4	0	1	25	3	75
TOTAL	32	0	10	45.5	22	54.5

Source: Research data

4.2.3 Industrial classification

Two broad classifications of all companies were established as products and services industries. Product industry was defined to constitute all firms trading in tangible goods and services. Though fifty percent of quoted companies are in service industry (Nairobi Stock Exchange, 1999), a higher response was observed on companies in product industry as shown below.

Table 4-4 Summary of responses (by industrial classification)

INDUSTRIAL CLASSIFICATION	NO. OF COMPANIES	PERCENTAGE
Service industry	13	40.6
Product industry	19	59.4
Total	32	100

Source: Research data

4.3 Demographic analysis of respondent companies.

4.3.1 Practice of ownership

A chi-square test of independence was carried out to establish whether there exists any relationship between industrial classification and practice of outsourcing.

H_o: There exists no association between industrial category and practice of outsourcing.

H_A: There exists an association between industrial category and practice of outsourcing.

Table 4-5 gives observed and expected frequencies (which are enclosed in the brackets). Expected frequencies were determined as product of totals of cell's column and row divided by the total observations made.

Table 4-5 Chi square results of observed and expected frequencies (based industrial categories)

CATEGORIES	PRACTICE OUTSOURCING	DO NOT OUTSOURCE
INDUSTRIAL AND ALLIED	9 (7.03)	6 (7.94)
FINANCE AND INVESTMENT	4 (3.75)	4 (4.25)
COMMERCIAL AND SERVICES	1 (2.34)	4 (2.60)
AGRICULTURAL SECTOR	1 (1.86)	3 (2.12)

Source: Research data

At 5% level of significance and three degrees of freedom, the critical chi-square value is 7.8. The calculated value of 3.4 is less than the critical value, therefore, we fail to reject the null hypothesis. The conclusion arrived at is that there exists no association between industry category and practice of outsourcing. These results indicate outsourcing both as strategic and transformation tool can be used by a company in any industry.

4.3.2. Company ownership

A chi-square test of independence was carried out seeking to establish if any relationship (association) exists between companies' ownership and practice of outsourcing.

H_o: There exists no association between company ownership and practice of outsourcing.

H_A: There exists an association between company ownership and practice of outsourcing.

The table below gives chi-square results of observed and expected frequencies.

Table 4-6 Chi square results of observed and expected frequencies (based on company ownership)

OWNERSHIP	PRACTICE OUTSOURCING	DO NOT OUTSOURCE
Local	3 (6.6)	11 (7.4)
Joint	12 (8.4)	6 (12.6)

Source: Research data

At 5% level of significance and one degree of freedom, the critical value is 3.84. After incorporating Yates correction factor, the calculated value is 4.78. This value is greater than the critical value, therefore, we reject the null hypothesis and conclude that, a relationship between company ownership and practice of outsourcing prevails. From above table, its observed that locally owned companies tend not to outsource whereas jointly owned do.

4.3.3 Industrial Classification

A chi-square test of independence was also carried out to establish if any association exists between nature of industry, the company is operating in and practice of outsourcing.

H_o: There exists no association between industrial classification and practice of outsourcing.

H_A: There exists an association between industrial classification and practice of outsourcing.

Below is a table showing observed and expected frequencies (those in brackets)

Table 4-7 Chi square results of observed and expected frequencies (based on industrial classification)

INDUSTRIAL CLASSIFICATION	PRACTICE OUTSOURCING	DO NOT OUTSOURCE
Service industry	5 (6.1)	8 (6.9)
Product industry	10 (8.9)	9 (10.1)

Source: Research data

At 5% level of significance and one degree of freedom, the calculated value of 0.63 is far less than the critical value of 3.84. We therefore fail to reject the null hypothesis and conclude no association exists between the practice and industrial classification. An overall conclusion arrived at is both industrial classification and categorization do not affect outsourcing practice. Outsourcing practice therefore does not discriminate between different financial activities.

4.4 Outsourcing practice in Kenya

This section captures the main objectives of this study; extent, reasons, risks and benefits of outsourcing.

4.4.1 Extent of outsourcing practice in Kenya

The findings of this study indicates 46.9% of public companies practise outsourcing of financial activity(ies) in Kenya. Commercial and service sector had the lowest percentage of respondents practicing outsourcing while industrial and allied sector had the highest. Table 4 – 5 gave a detailed summary of the result.

4.4.2 First year of outsourcing

Out of 15 companies surveyed to be outsourcing, 13 companies (86.7%) started outsourcing on or before 1996. Table 4-8 gives a summary.

Table 4-8 Table showing first year of outsourcing

		FIRST YEAR OF OUTSOURCING				
CATEGORIES	NO. OF COMPANIES	BEFORE OR IN 1996	1997	1998	1999	2000
INDUSTRIAL AND ALLIED	9	8	0	0	1	0
FINANCE AND INVESTMENT	4	3	0	0	0	1
COMMERCIAL AND SERVICES	1	1	0	0	0	0
AGRICULTURAL SECTOR	1	1	0	0	0	0
TOTAL	15	13	0	0	1	1
PERCENTAGES	100%	87.6%	0	0	6.7%	6.7%

Source: Research data

This indicates that outsourcing is not a new concept within large companies. Companies have been outsourcing for a long period. This may be attributed to the long duration that these companies have been in operation. The results, however, do not indicate the growth of outsourcing practices within these companies both in terms of progressive number of financial activities outsourced and whether the whole or just a section of an activity has been outsourced.

4.4.3 Financial activities outsourced

All the companies that responded positively on outsourcing do outsource tax compliance function. Tax compliance activities were defined in questionnaire to include Value Added Tax (VAT), Corporate taxes, and import and excise duties. Eight companies outsource payroll services while no company responded to be outsourcing financial reporting and general accounting practice. Table 4 – 9 gives a summary.

Table 4-9 Financial activities outsourced by industrial classification

		OUTSOURCED SERVICES			
CATEGORIES	NO. OF COMPANIES	TAX	PAYROLL	FINANCIAL REPORTING	GENERAL ACCOUNTING
INDUSTRIAL AND ALLIED	9	9	3	0	0
FINANCE AND INVESTMENT	4	4	3	0	0
COMMERCIAL AND SERVICES	1	1	1	0	0
AGRICULTURAL SECTOR	1	1	1	0	0
TOTAL	15	15	8	0	0

Source: Research data

The results indicate tax compliance as the major activity being outsourced in Kenya. This may be due to complexity and strict regulations accompanied by harsh penalties for not observing the set stipulations by the Finance Act and Kenya Revenue Authority.

Two companies also outsource internal audit function, one in commercial and service sector while the other in industrial and allied sector. A company in agricultural sector outsources accounting system implementation and maintenance.

4.4.4 Reasons for outsourcing

Question seven sought reasons why companies outsource. A set of statements was given where respondents were to indicate their level of agreement or disagreement. The level of agreement or disagreement and the findings from the statements are anticipated to be biased on tax compliance function as all respondents outsourcing indicated using external vendors to carry out this function.

Likert scale measuring the extent of agreement was used to evaluate reasons for outsourcing. The ranks were on a six point scale (strongly agree, fairly agree, agree, disagree, fairly disagree and strongly disagree) and were assigned weights of 1, 2, 3, 4, 5 and 6 respectively. The main reason for outsourcing was established as to take advantage of external expertise and experience available.

Other main reasons were reducing overhead costs and availing more time for other activities. Table 4–10 gives a summary of reasons and the ranking both by mean and mode.

Table 4-10 Summary of reasons why companies outsource (ranked by mean and mode).

REASON	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
Outsourcing services are not strategic	3.33	1.63	Agree	4	Disagree
Outsourcing reduces overhead costs	2.73	1.10	Agree	3	Agree
To take advantage of external expertise and experience	2.6	1.50	Agree	2	Fairly Agree
We lack internal expertise to perform outsourced services	3.93	1.33	Disagree	4	Disagree
Cost of outsourcing is low	4.13	1.30	Disagree	5	Fairly Disagree
Cost of performing outsourced services internally is high	3.20	1.21	Agree	3	Agree
Lack time to perform such activities	3.67	1.29	Disagree	3	Agree
To avail more time for other activities	2.93	0.88	Agree	3	Agree
Volume of outsourced services is low	3.73	1.79	Disagree	4	Disagree

Source: Research data

The conclusion arrived at is that outsourcing though it reduces overhead costs has a high financial cost and companies do not lack internal expertise to perform such services. Due to high volume of outsourced activities, they want to take advantage of external expertise and experience. This rhyme with general requirement of tax compliance function.

4.4.5 Motives of Outsourcing

Question eight aimed at addressing motivation compelling companies to outsource some services. The results reveal an overall agreement to set statements as motives of outsourcing. Highest agreement was outsourcing enables companies to focus on core business. This is also the major motive observed by PwC (www.barometersurveys.com/) and Pearce and Robinson (1997). A summary of results is given below.

Table 4-11 Motives of outsourcing and their ranking

MOTIVE	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
Outsourcing enables firm to focus on core business	2.20	0.94	Fairly Agree	2	Fairly Agree
Outsourcing reduces overall cost	3.07	1.22	Agree	3	Agree
Outsourcing reduces number of staff	3.07	0.96	Agree	4	Disagree
Outsourcing frees up management to perform other functions	2.73	1.03	Agree	3	Agree
Outsourcing helps improve overall efficiency	2.67	0.90	Agree	2	Agree
Outsourcing reduces activity level	3.33	0.90	Agree	3	Fairly Agree
Better performance of outsourcing vendor	3.40	1.24	Agree	3	Agree

Source : Research data

Most of the respondents disagreed that outsourcing reduces number of staff. With regard to motives of outsourcing, the conclusion generated was, besides enabling firm to focus on its business, outsourcing helps to improve overall efficiency while freeing up management to perform other functions. However, even after outsourcing, the number of staff did not lower possibly due to relocations to other departments.

4.4.6 Difficulties in outsourcing

Question nine sought difficulties encountered by management in evaluation of whether to outsource or not and if to outsource, which activities. Identification of which financial services to outsource and cost evaluation between outsourcing and insourcing were indicated as the most difficult tasks. A summary is given below.

Table 4-12 Difficulties in outsourcing

Difficulties	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
Identification of financial services to outsource was difficult	3.93	1.16	Disagree	3	Agree
Staff was resistance to change	3.8	1.32	Disagree	3	Agree
Cost evaluation whether to outsource or not was difficult	3.6	1.24	Disagree	3	Agree
Selection of outsourcing vendor was easy	3.33	1.23	Disagree	4	Disagree
Drawing contract with vendor was easy	3.27	0.96	Disagree	3	Agree

Source: Research data

Selection of outsourcing vendor was perceived to be most difficult by most respondents. (Mode value is 4). This may be attributed to high number of professional accounting firms and individuals in the market. In addition, evaluation criteria used by the firms in selection of vendor where in place may be demanding in both time and expertise. Expertise will be required to analyze whether attributes presented by the potential vendor matches those desired by the client firm.

4.4.7 Risks of outsourcing

Risks resulting from outsourcing of accounting services were sought using question ten. The results indicate an overall agreement that outsourcing does not expose respondent companies to risks like loss of decision making process and information leakage from vendors. However, over reliance of external parties was noted. Taking into consideration the two main outsourced functions (payroll and taxes), it may be concluded that confidentiality of vendors is a key attribute considered and client companies have held control over outsourced services.

Table 4-13 gives a summary of the results.

Table 4-13 Risks of outsourcing

Risk	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
There is loss of control on decision making process	4.4	0.99	Disagree	4	Disagree
There is loss of command on outsourced services	4.13	1.25	Disagree	4	Disagree
Information leakage occur from vendor	4.27	1.10	Disagree	4	Disagree
There is growth on over reliance on external parties	3.47	1.11	Agree	4	Disagree

Source: Research data

Risks associated with outsourcing could have been reduced by mutual trust between respondents and vendors, articulately drawn service level agreement (SLA) and well-laid "service of work" or "schedule of activities" to be performed. With the perceived bias of this study towards tax compliance function, over reliance to external parties gives implication that the whole function is usually outsourced from computation of tax liability to preparation of tax installment payments.

4.4.8 Selection of vendors

Different attributes are considered in evaluation of vendors. Question eleven had statements on key attributes considered. The likert scale in this question had four levels (Very important, Fairly important, Important and Not Important) which were assigned weights of 1, 2, 3 and 4 respectively. Internal skills that the vendor possesses was the most important attribute considered while size of vendor based on number of staff was least. Table 4 – 14 gives a summary of the results.

Table 4-14 Attributes considered in selection of vendor

Attributes	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
Financial soundness	1.53	0.99	Fairly Important	1	Very Important
Duration which vendor has been in operation	1.6	0.74	Fairly Important	1	Very Important
Internal skills the vendor possess	1.27	0.46	Very Important	1	Very Important
Size of vendor (based on number of staff)	2.53	0.83	Important	2	Fairly Important
Vendor performs business related with outsourced function	1.93	0.88	Fairly Important	2	Fairly Important
Vendors performance on past consultations	2.07	0.80	Fairly Important	2	Fairly Important
Commitment to quality and flexible contract terms	2.13	0.52	Fairly Important	2	Fairly Important
Financial costs charged	1.67	0.72	Fairly Important	1	Very Important
Presence of other seeking similar services	2.27	0.70	Fairly Important	2	Fairly Important

Source: Research data

The mode gives four major attributes that are strongly considered by the companies. These are financial soundness, duration that the vendor has been in operation and his skills and financial cost charged. This gives an indication that client companies seek to attain service level agreements (SLA) by attempting to get highest quality of outsourced work at a lower cost. These reasons are among those found in studies carried out by The Outsourcing Institute in 1998 (www.outsourcingResearch.com)

4.5 Reasons for not outsourcing

Seventeen companies (53.1%) do not outsource any financial activity. Table 4–5 gave a summary. Question 4(b) had a set of statements evaluating possible reasons why responding companies do not outsource. Key reasons established were outsourcing is expensive based on financial costs and such companies generally find outsourcing not necessary. The implication by such companies was cost of hiring personnel with finance and accounting skills was less compared to cost of outsourcing to vendors. Also such personnel are available in the market. Table 4–15 gives a summary.

Table 4-15 Reasons why companies do not outsource

Reason	MEAN	STANDARD DEVIATION	RANKING	MODE	RANKING
The firm is not aware of what is outsourcing	5.47	0.72	Fairly Disagree	6	Strongly Disagree
The firm is not aware of potential benefits of outsourcing	4.77	0.97	Fairly Disagree	5	Fairly Disagree
Outsourcing is expensive (financial costs)	2.29	0.92	Fairly Agree	3	Agree
The firm find outsourcing not necessary	2.35	1.50	Fairly Agree	1	Strongly Agree
There is no suitable vendor in the market	4.65	1.06	Fairly Disagree	5	Fairly Disagree
Volume of financial transactions is very high	2.71	1.16	Agree	4	Disagree
All financial activities are considered strategic	3.06	1.71	Agree	3	Agree

Source: Research data

appreciate presence of suitable vendors in the market but find outsourcing unnecessary, which may be attributed to high volume of financial transactions. Financial activities are also considered strategic by these firms. Given that these companies are quoted, the level of strategic value to such information would have been of much importance to this study considering the final financial report has to be released to the public in the annual general meeting.

Chapter Five

CONCLUSION

This chapter offers inferences gained from the study and contains four sections. Section 5-1 presents summary and discussion of the results of the study based on the analysis of previous chapter. Section 5.2 gives some recommendations while section 5.3 is on limitation encountered in this study. The last section expounds on areas where further research studies could be carried.

5.1 Summary and Discussion

The results of this study indicate outsourcing is not a new concept in the Kenyan market. Companies that do not outsource indicated having a general awareness of what is outsourcing while 87% of those outsourcing, initiated the practice five or more years ago. This indicates management's aggressiveness in keeping up with new strategic practices evolving in the global market. Thiga (1999) had a similar conclusion on management aggressiveness.

Practice of outsourcing is independent of the industry that a company is operating in but is dependent on ownership pattern. Use of external vendors to perform financial activities is not restricted to any industry though it was found to be more pronounced in jointly owned companies compared to locally owned. This gives an implication that locally owned companies do consolidate all their functions to themselves rather than outsource some to experts.

Outsourcing was noted to gain acceptance in the market, as its benefits become more apparent. Companies are realizing they are not capable of being expert in all fields of they operations. As such, they aim at focusing on core business and outsourcing those other functions to external vendors. Through the use of external vendors, management is able to free up those resources that are tied up if such functions were done internally, and time. On time, the aim is to utilize financial information generated by vendors rather than concentrate in generating it. Even with potential benefits known, companies are having difficulties in deciding whether to outsource or not. These difficulties encountered could broadly be classified as what to outsource and to whom i.e. Separation of activities to outsource and those to insource, and selection of the vendor to contract.

Outsourcing engagements like other contractual engagements are characterized with risks and rewards. From studies by PwC (www.barometersurveys.com) and The Outsourcing Institute (www.outsourcing.com/), major risks were highlighted in the questionnaire. The findings of this study indicated such risks to have been contained by client firms. This may be due to careful analysis of risks inherent while drawing contracts and continuos evaluation throughout contracting period. Essentially, management of risks is a post-agreement monitoring on the client side, whether loss of control, loss of flexibility or information leakage occurs.

Financial costs requested by outsourcing vendors may be perceived to be high or low depending on costs incurred to perform such activities internally, financial soundness of firm etc. Those companies that were found to have outsourced had a general agreement on overall reduction in costs. However, those that do not practice outsourcing view it being expensive having low volume of financial activities.

When main reasons for and against outsourcing are compared, one concludes that, outsourcing practice in Kenya is not purely, cost-cutting move but a business tool to enable management focus on its core business.

5.2 Recommendations

For a company to be successful, it should have a portfolio of competencies rather than a portfolio of business. Outsourcing as a strategic tool aims at freeing management time to focus on the company's unique competencies through concentrating more resources around key strengths. Firms that do not outsource are recommended to evaluate between cost of having some functions done by outsiders verses opportunity cost of management focusing on such activities rather than core activities. Accounting being a monitoring function and an assessment of financial performance on other functions could be contracted out to allow fair assessment and avoid creative accounting practices by internal personnel. Those that are outsourcing are recommended to articulately define what benefits and rewards they are getting versus what they ought to get and risks involved. A company that does not conduct a careful analysis before engaging in outsourcing may find itself transferring benefits which it could have realized had it insourced the function. Performance level of external vendors should continuously be monitored and agreement on quality of services expected throughout contracting period be explicitly disclosed.

5.3 Limitation

The major limitation was time. Time restricted the study to large companies. Medium, small and not-for-profit organizations also have financial functions and hence, there is a possibility of outsourcing. As such, the findings of this study are inclined generally to large organizations.

Yates correction factor where used in chi square test of independence caused pooling effects to calculated chi square value.

5.4 Areas for Further Research

This study being the first one on outsourcing in Kenya offers a breakthrough to future studies on use of external vendors.

- This study and even other studies by PwC (www.barometersurveys.com/) and IO (www.outsourcingResearch.com/) targeted large profit-making organizations. A replicative study could be carried out in medium and small organizations.
- A study could also be conducted on growth of outsourcing in Kenya. Such a study could compare developments taking place in emerging schools of thoughts on outsourcing verses current practice in Kenya. Such a study should be a longitudinal survey

- This study was restricted to a single business process function. The researcher would recommend similar studies in other key business processes like administration, sales and marketing, and internal operations.

Epitaph

"If education is to be a road map, be sure it describes the right highway. There is no worse situation than years buried in books, the two (You and the books) are finally required to see what remedy is there on 'a' particular dispute, only to discover that, there was no resemblance of mission, goals and objectives between education and the way its designed on one hand, and you and the purpose of seeking education on the other."

APPENDIX I

List of companies quoted in the Nairobi stock exchange -1st June 2000

Industrial And Allied Sector.

Athi River Mining
Bamburi Cement Ltd
British American Tobacco Ltd
BOC Gas Ltd
Carbacid Investment Ltd
Crown-Berger Ltd
Dunlop
East African Breweries Ltd
East African Cables Ltd
East African Packaging Ltd
East African Portland Ltd
Firestone E.A. Ltd
Kenya Oil Ltd
Kenya national mills
Kenya orchards
Kenya Power and Lighting Ltd
Total Kenya Ltd
Unga Ltd

Agricultural sector.
Brooke Bond (K) Ltd.
George Williamson
Limuru tea
Eaagads
Ol Pejeta
Kakuzi Ltd.
Kapchorua
Rea Vipingo.
Sasini Tea and Coffee.

Commercial and Services Sector.

A.Baumman Ltd.
Marshalls
Pearly Drycleaners
Car and General
Hutching biemer
Lonro Motors
African Lakes Corporation.
C.M.C Ltd.
Express Kenya Ltd.
Kenya Airways.
Nation Media Group.
TPS Serena Ltd.
Standard Newspaper Group Ltd.
Uchumi Supermarkets Ltd.

Finance and Investment Sector.

Barclays Bank Ltd
CFC Bank Ltd
City Trust Ltd
Diamond Trust Bank Ltd
HFCK Ltd
ICDC Investment Ltd
Jubilee Insurance Ltd
KCB Ltd
National Bank (K) Ltd
NIC Bank Ltd
Pan-African Insurance Ltd
Standard Chartered Bank
Regent

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAMME - LOWER KABETE CAMPUS

Telephone: 732160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

Dear Respondent,

REF: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi, pursuing a course leading to a Masters degree in Business Administration (MBA). In partial fulfillment of the requirements of the stated course, I am conducting a Management Research Project entitled **"A survey on outsourcing of selected financial activities by companies in Kenya"** Outsourcing is hereby defined as use of outside resources (other organizations) to perform activities which traditionally have been handled by internal staff.

Your company is one of those selected for the study. I am kindly requesting you to fill in the attached questionnaire the soonest possible. If you do not have the answer to any question or section of the questionnaire, kindly pass it over to the relevant person. The information obtained will be used purely for academic purpose and the findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Yours faithfully,

WAINAINA S.
MBA CANDIDATE

IRAYA C. MR.
SUPERVISOR
DEPARTMENT OF ACCOUNTING

APPENDIX III
Questionnaire

A: General information:

Tick where appropriate

1. Under which of the following categories does your company fall?

1. Agricultural	[ ]
2. Industrial and allied	[ ]
3. Finance and investment	[ ]
4. Commercial and services	[ ]

2. Please indicate the type of ownership of your company

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

3. Please indicate the industry classification of the company

Service industry	[ ]
Product industry	[ ]

B: Practice of financial activities outsourcing

4. In the last five years, (Between 1996 and now), has your company outsourced any financial activity?

Yes [ ] No [ ]

a) If yes, go to section C

b) If no, kindly rank the extent of agreement with following statements.

Key:

Strongly Agree	**SA**
Fairly Agree	**FA**
Agree	**A**
Disagree	**D**
Fairly Disagree	**FD**
Strongly Disagree	**SD**

	SA	FA	A	D	FD	SD
The firm is not aware of what is Outsourcing	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
The firm is not aware of potential benefits of Outsourcing	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing is expensive (financial costs)	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
The firm find outsourcing not necessary	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
There is no suitable vendor in the market	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Volume of financial transactions is very high	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
All financial activities are considered strategic	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

C. For firms that practice outsourcing of financial activities.

5. Kindly tick when you first outsourced

1	Before or in 1996	[ ]
2.	in 1997	[ ]
3.	in 1998	[ ]
4.	in 1999	[ ]
5.	in 2000	[ ]

6. For the last five years (1996 to now), tick services you have outsourced or currently outsourcing.

	Yes	No
Payroll services	[ ]	[ ]
General accounting (bookkeeping)	[ ]	[ ]
Financial reporting (Preparation of financial statements)	[ ]	[ ]
Tax compliance (VAT, Corporate tax , Import and excise duties etc)	[ ]	[ ]

Others,specify...

7. To what extent do you agree with the following statements as reasons why your company has outsourced some service?

Key:		
	Strongly Agree	SA
	Fairly Agree	FA
	Agree	A
	Disagree	D
	Fairly Disagree	FD
	Strongly Disagree	SD

	SA	FA	A	D	FD	SD
Outsourced services are not strategic	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces overhead costs	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
To take advantage of external expertise and experience.	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
We lack internal expertise to perform Outsourced services	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Cost of outsourcing is low	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Cost of performing outsourced services internally is high	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Lack time to perform such activities	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
To avail more time for other activities	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Volume of outsourced services is low	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

8. To what extent do you agree with following statements as motivation compelling outsourcing?

Key: As in Question 7

	SA	FA	A	D	FD	SD
Outsourcing enables firm to focus on core business	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces overall cost	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces number of staff	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing frees up management to perform other functions	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing help improve overall efficiency	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces activity level	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Better performance of outsourcing vendor	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

9. In making decision to outsource, to what extent do you agree with following:-

Key: As Question 8

	SA	FA	A	D	FD	SD
Identification of financial services to outsource was difficult	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Staff was resistance to have a change	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Cost evaluation on whether to outsourcing or not was difficult	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Selection of outsourcing vendor was easy	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Drawing contract with vendor was easy	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

10. As a result of outsourcing, to what extent do you agree with following:-

Key; As Question 9.

	SA	FA	A	D	FD	SD
There is loss of control on decision making process.	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
There is loss of command on outsourced service	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Information leakage occur from vendor	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
There is growth on over reliance on external parties.	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

11. Rate the importance of each of following attributes in selection of outsourcing vendor.

Key: Very Important **VI**
Fairly Important **FI**
Important **I**
Not Important **NI**

	VI	FI	I	NI
Financial soundness	[ ]	[ ]	[ ]	[ ]
Duration which vendor has been in operation	[ ]	[ ]	[ ]	[ ]
Internal skills the vendor possess	[ ]	[ ]	[ ]	[ ]
Size of vendor's firm (based on No. of staff)	[ ]	[ ]	[ ]	[ ]
Vendors performs business related with outsourced service	[ ]	[ ]	[ ]	[ ]
Performance on past consultation	[ ]	[ ]	[ ]	[ ]
Committee to quality flexible contract terms	[ ]	[ ]	[ ]	[ ]
Financial costs charged	[ ]	[ ]	[ ]	[ ]
Presence of other clients seeking similar services	[ ]	[ ]	[ ]	[ ]

0ther importance attributes, specify

....

....

....

THANK YOU FOR YOUR TIME AND CO-OPERATION.

APPENDIX IV

Yates correction factor for continuity

The chi square test used to test independence between industrial classification and categorisation, and ownership pattern and practice of outsourcing was formulated as:

$$\chi^2 = \frac{(O_i - E_i)^2}{E_i}$$

Where O_i = observed frequency in cell i,

E_i = expected frequency in cell i.

In 2 x 2 tables where a cell was observed to have a frequency of less than five, Yates correction factor for continuity was applied and formulated as;

$$\chi^2 = \frac{n(\,|AD - BC| - n/2)^2}{(A + B)\ (C + D)\ (A + C)\ (B + D)}$$

where n is the sample size and

the letters represent observed frequency in the cells designated as

A	B
C	D

Applying this formula in chi square test on page 44

$$\chi^2 = \frac{32\ (|18 - 132| - 16)^2}{14 \times 18 \times 15 \times 17}$$

$$= 4.7825$$

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