

**INFLUENCE OF OUTSOURCING STRATEGY ON
PERFORMANCE OF THREE TO FIVE STAR HOTELS IN
NAIROBI CITY COUNTY**

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DECLARATION

Student's Declaration

I declare that this research project is my original work and has never been previously published or submitted elsewhere for assessment or award of a degree.

Sign _____ Date _____

MOSES KIPTUM RAGOR

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Supervisor's Declaration

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

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DEDICATION

This research project is dedicated to my parents Arap Matei and Cheron.

ACKNOWLEDGEMENT

First and foremost, I thank my God for granting me the strength and energy to undertake the studies and write this research project.

Secondly, I wish to extend special thanks to my fiancée Chepkoech, brother Kiptoo, and sisters Chepkoech, Cherotich and Chepng'etich for their patience during this period. Their understanding and encouragement enabled me complete this project

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ABSTRACT

Companies all over the world are experiencing stiff competition from their competitors. To gain a competitive edge; they need to be flexible and innovative in their modes of operations. Globalization has driven many organizations to widen their resources and capability enhancement from internal environmental practices to greater heights. Attention is increasingly shifting towards external collaboration and networking outside the boundaries of the organization. This requirement has become essential in order to be competitive locally and across the borders. As to achieving this, organizations need to have strong upstream and downstream integration of their elaborate network of business relationships. As companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses. The main aim of this study was to carry out a study on the influence of outsourcing strategy on the performance of three to five star hotels in Nairobi County. A descriptive research design was used to evaluate because the main interest was to explain a viable relationship. The target population in this research design was all the three to five star hotels in Nairobi County. There are twenty six three to five star hotels in Nairobi County. The unit of analysis was the purchasing manager. The data collection instrument was structured questionnaire containing both open ended and closed ended questions. The data obtained was analyzed using statistical package for social sciences and descriptive statistics for example the measures of central tendency and measures of variation. The finding found out that outsourcing has an influence on increased customer satisfaction, capacity of innovation and flexibility ,reduced cost and improved quality of service; organizational competitiveness and increased sales turnover and profitability, recommendation is made on improving outsourcing methods as well as identified gaps for future research,

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Companies all over the world are experiencing stiff competition from their competitors. To gain a competitive edge; they need to be flexible and innovative in their modes of operations. Globalization has driven many organizations to widen their resources and capability enhancement from internal environmental practices to greater heights. Attention is increasingly shifting towards external collaboration and networking outside the boundaries of the organization. This requirement has become essential in order to be competitive locally and across the borders. As to achieving this, organizations need to have strong upstream and downstream integration of their elaborate network of business relationships (Bergmann, 2004). In an increasingly intense competitive environment, the effective deployment of organizational resources is of paramount importance. Central to developing competitive strategies is the notion of outsourcing.

The highly competitive environment along with customers' demands for tailored products and services has forced companies to continuously evaluate, improve and reengineer their operations. These operations have a noticeable contribution in companies' efforts to meet customers' expectations. Their outcomes, such as place convenience, waiting time convenience, delivery time convenience, and after sales convenience, are easily visible and assessable by the final customer and consequently delineating its purchasing behavior. Firms have always sought ways to gain a competitive advantage over their competitors; however, with the increased movement towards a single globalized

economy, this desire is even more prevalent for businesses today. One avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage to these firms (Raibornet *al.*, 2009). Outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Bustinzaet *al.*, 2010).

3-5 star hotels have been of major importance in boosting our economics' GDP. With the huge revenues returns that are collected yearly, it's able to provide huge contributions to our GDP. 3-5 star hotels in Kenya have been a major source of employment for many. It provides many opportunities like sales and marketing, accounting and finance, procurement, pastry, waiters/ waitress etc. They also give opportunities to many suppliers who supply these hotels with the all the necessary materials and foods that are used as raw material thus earning them income which leads to an increase in general country's' economy.

1.1.1 Concept of strategy

Hiksenet *al.*, (2006) defines strategy as the decisions which are related to the long term performance and progress of the organization. Strategy is a combination of the set of decisions and actions which are viewed in the form of strategy formulation, implementation and control of plans designed to achieve a corporation's vision, mission and long term performance of the organization. Strategy is determination of the basic

long term goals, objects and performance of the organization and taking actions, decisions and allocation of the resources essential for to carryout goals of the organizations (Hax and Majluf, 2006).Johnson and Scholes (2002, P 10) has also defined strategy as “the direction and scope of an organization over the long-term; which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". Quinn (1980) proposes that strategy is the pattern or plan that integrates an organizations major goal, policies and action sequences into cohesive whole.

Strategy is the match between an organization’s resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish (Hofer and Schendel, 2009). It is meant to provide guidance and direction for the activities and direction of the organization. Since strategic decisions influence the way organizations respond to their environment, the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. The manager’s task is to assure success and therefore survival of the companies they manage. Strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired.

1.1.2 Outsourcing Strategy

Outsourcing is the process of contracting an outside company to provide a service previously performed by staff. In many cases, outsourcing involves a transfer of management responsibility for delivery of service and internal staffing patterns to an

outside organization. Subcontracting, contracting out, staff augmentation, flexible staffing, employee leasing, professional services, contract programming, consulting, and contract services are all terms which refer to outsourcing (Sarpin and Weideman, 2009). Firms essentially have three kinds of processes: core processes which give strategic advantage, critical non-core processes which are important but not competitive differentiators, and non-core non-critical processes which are needed to make the environment work. Outsourcing non-core processes frees the firm's time and resources for core competencies. The service provider owns, administers and manages the business process, based upon defined and measurable performance metrics with an objective to improve overall business performance (Sarpin and Weideman, 2009).

Outsourcing as a key business strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes. Companies have been outsourcing operations, business services and even entire business lines successfully for a long time now. Recently, contract manufacturing sector has benefited with considerable outsourcing, initiated by the electronics and pharmaceutical industries. Outsourcing of core functions like engineering, information technology (IT), payroll, logistics, human resources management, research and development and marketing are being considered by organizations. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise will be more vital than the ownership of capabilities (Gottfredson *et al.*, 2005). Competitive pressures and the need for enhanced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide.

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements (Ellram, 1997). Outsourcing assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. Outsourcing is seen as a means through which a business condition or problem can be alleviated in a manner that is more efficient or effective than in-house performance of logistics functions. Cognitive motivation involves careful analysis of alternatives or a well-thought-out corporate policy indicating that outsourcing is the best path for the company (Gottfredson *et al.*, 2005).

1.1.3 Organizational Performance

Organizational performance is the final achievement of an organization and contains a few things, such as the existence of certain targets are achieved, has a period of time in achieving the targets and the realization of efficiency and effectiveness (Gibson *et al.*, 2010). Koontz and Donnell (2003) posits that organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization.

All organizations, whether small or big, public or private, for-profit or non-profit, struggle for survival. In order to survive, they need to be successful (effective and efficient). Performance lies at the heart of any managerial process and organizational construct and is therefore considered as a critical concept in the strategic management field. Organizational performance includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target (Johnson *et al.*, 2006). It is used to make adjustments to accomplish goals more efficiently and effectively. Organization performance is what business executives and owners are usually frustrated about. This is so, because even though the employees of the company are hard-working and are busy doing their tasks, their companies are unable to achieve the planned results. Results are achieved more due to unexpected events and good fortune rather than the efforts made by the employees. However, for any business to be successful, functions must be defined and accomplished. It is important for an organization to develop strategies that are designed around the skills that would enhance the performance of the organization.

1.1.4 Hotel Industry in Kenya

The hotel industry in Kenya forms a big part of its tourism sector. The infrastructure of the Hospitality industry is diverse and among them are the star rated hotel which ranges from one star to five stars in Kenya. The rating exercise is authenticated by the Ministry of Tourism in liaison with the Hotels and restaurant authority and other stakeholders in the industry. The rating criterion is predetermined on the basis of several factors like the location, surrounding physical environment, architectural designs and features, hotel

capacity, infrastructure, hours of service, communication infrastructure, the type of services and facilities offered to targeted market segment.

Hotels in Nairobi County lead all other regions in both business and influence in regard to quality, services and facilities. Due to changing trends of demand in hospitality business, there is an increased need of hotel accommodation to cater for non holiday making visitors. By April 2010, the Kenya Tourism Board statistics showed an increase of business and conference visitors by 21.10 % and sports 11.60%. This coupled with other factors increases the need for more star rated hotels in Nairobi. Top European and U.S hotel chains e.g. the Star wood hotel and resorts and Rezidor hotel groups of Belgium have since seen the opportunities and launched their business in Kenya due to increased country's standing as a conference tourism destination. The impending entry into the market was as a means to address the shortage in bed capacity that had long stressed the sector as evidenced during the Tourism boom of year 2007. This signals the beginning of increased competition in the hotel subsector of the Hospitality industry.

1.1.5 Three to Five Star Hotels in Kenya

Nairobi has the best selection of tourist hotels ranging from modest accommodations right up to five-star luxury. 3-5 star hotels in Nairobi County include; Laico Regency Hotel former Grand Regency, Nairobi Safari Club Hotel, Nairobi Serena Hotel, Crowne Plaza, Ole Sereni, Panari Hotel, Safari Park Hotel and Casino, Sankara, Sarova Stanley Hotel, Southern Sun Mayfair Nairobi, The Fairmont Norfolk Hotel, The Giraffe Manor, The Norfolk Hotel, Windsor Golf Hotel And Country Club, Villarosa Kempinski, Dusit D2, Eka hotel and upcoming one like Radisson

Nairobi's 3-5 star hotels are mainly located at its town center or nearby surroundings which makes access and transportation easier. These hotels offer superior amenities and luxurious services; they also offer a choice of bars, restaurant and state of the art gyms, steam, and sauna facilities. The products and services in these hotels are rated as top notch and the cost is high. This is due to the quality of staff and their high pay scales. The nature of equipment's and operating tools are sophisticated to match the fitness anticipated by the patrons. The owners also invest so much in value addition. The levels of the maintenance of the facilities are very high, partially due to the annual audit for star rating by the hotels and restaurants in Kenya. These are also referred to as exclusive hotels. Most of these hotels are part of international hotel chains and employ international expertise for top position. This is a strategy employed in order to ensure that they apply their knowledge of international standards which gives a competitive advantage. The management of such 3-5 star hotels attaches very high value to exceeding customer expectation, which in turn becomes their competitive advantage there is continuous monitoring of customer service satisfaction index through guest feedback. This will enable the hotels gauge how their customers rate and whether they would prefer to be their guest again. Customer service satisfaction involves internal and external capabilities.

1.2 Research Problem

As companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core

businesses (Anderson, 2005). Companies are becoming progressively more dependent on service providers to deliver performance at a competitive level according to stakeholders and market demands. However, to be able to achieve this, the service delivery process need to be carefully defined, negotiated, and agreed upon considering involved parties' needs, wants and preferences. For an organization to become profitable it must put in place strategies that position itself in market dominance and improve the firm's overall performance. The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competences and capabilities (McIvor, 2008). With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang *et al.*, 2007).

The accelerated competition as well as the ever increasing consumer demand for value has pushed three to five star hotels to create value through efficient use of limited resources. This has necessitated them to search for ways of offloading some of these activities for efficiency and competitiveness. These organizations have reaped many benefits of outsourcing such as access to best in class technologies and reduced costs of operations. To survive, the hotels must be agile enough to respond to the pressures to compete on levels unrivalled in the past. Focus has now shifted to internal processes in order to offer the hotels the best opportunity to take up the unique challenges facing the hotels today. In order for sector to know if it is competitive in an industry with a lot of competition, effective outsourcing is important for organizations to improve their performance.

Recent studies that have been done on outsourcing and organizational performance include, Oyugi (2010) who focused on the effects of outsourcing on corporate performance at British American Tobacco Kenya Limited. The findings of the study were that outsourcing indeed has a positive effect on the corporate performance of BAT Kenya and that many of the employees were welcome to it. However, the junior managers felt that not all the stake holders were involved in the outsourcing process and thereby outsourcing by the company did not achieve its full potential. They advocated for more involvement of those working on a day to day basis with the outsourced company in the decision making processes. Also, Kiplangat (2011) researched on the impact of outsourcing practices on performance of commercial banks in Kenya. The findings of the study was that the perceived benefits outweigh perceived failures and hence outsourcing is viewed to have enhanced banks' performance.

Similarly, Kenani (2013) researched on the outsourcing strategy and performance of outsourced activities in cement industry in Kenya. The study found out that there was need to focus on core competencies and enhance efficiency were the factors influencing outsourcing strategy adoption. On the other hand, Ondigo (2013) undertook a study on outsourcing and performance at Chemelil Sugar Company limited and established that most important reasons for outsourcing was concentration on core activities, reduction of cost of operation in terms of labor and overtime payments, efficiency and quality improvements, timely service delivery and improved overall performance. However, the management intentions and expectations of reducing the cost of operation and improving the operational performance has largely not been achieved since mean costs have risen throughout the study period. This study therefore seek to determine the influence of

outsourcing on organizational performance of three to five star hotels in Nairobi County and it was guided by the following study question; what influence does outsourcing strategy have on the performance of three to five star hotels in Nairobi?

1.3 Research Objective

To determine the influence of outsourcing strategy on performance of three to five star hotels in Nairobi.

1.4 Value of the study

The findings of the study was of value to the transaction cost and risk theoretical framework as it enabled the study to conceptualize and empirically operationalized outsourcing as influencing the performance of organizations. Particular attention was paid to the services outsourced by the hotels and their influence on the performance of the hotels.

The findings of the study were relevant to management and practices as it enabled the management of the hotels to know the influence that outsourcing have on the overall hotel performance. The findings of the study exposed the effect of outsourcing on performance and as a result, the companies were more endowed with knowledge and prepared to fit in the prevailing competitive environment. The results may provide the buying firms with the ability to identify best practices that if applied can assist organizations in creating a competitive advantage. Improving supplier's performance creates an advantage, resulting in the buying firms' ability to improve customer value propositions.

The policy makers obtained knowledge of the hotel industry dynamics and the influence of outsourcing and therefore they can obtain guidance from this study in designing appropriate policies that regulated the industry. The study provides the background information to other researchers and scholars who may want to carry out further research in this area. The study facilitates individual researchers to identify gaps in the current research and carry out research in those areas, the work was used by students who wanted to study similar area and to come up with comprehensive conclusion and reasoning in regard to outsourcing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers literature review related to the study. It includes a review of the various studies conducted by researchers on theoretical foundation, effect of outsourcing on organizational performance, outsourcing and organizational performance and the problems of outsourcing.

2.2 Theoretical Foundation of the Study

A number of theories have also been put forward in the literature that attempt to justify the unprecedented rate of outsourced contracts (Gottschalk & Solli-Saether, 2005). This theories include the transaction cost theory, resource based theory and risk theory.

2.2.1 Transaction-Cost Theory

According to transaction-cost theory, the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process (Mahnke et al, 2005). The three dimensions of transactions include: frequency of transactions, uncertainty, and degree of asset specificity. If all the dimensions of the transaction are found to be low, then the firm will decide to outsource its business processes. This approach highlights the need for a detailed and specific contract between the client and vendor in order to avoid opportunism and performance measuring problems (Poppo & Zenger, 2002). But such formal and highly specific contracts may lead to

distrust and opportunism. This view fosters rigidity and distrust among vendors due to its emphasis on over-specification.

Transaction-cost theory indicates that firms outsource production in order to reduce costs and to achieve cost efficiency. Production cost is the cost incurred to make the product or to provide the service e.g. labor, material, and capital. Coordination costs include monitoring, controlling and managing the work internally. If the job is handed over to an external vendor, the coordination costs are called transaction costs. Kulmala (2003) argues that externally outsourcing of services or production results in lower production costs than doing it internally due to economies of scale. But in such a case the transaction cost is high because vendors need to be managed and monitored. Aubert *et al.* (2004) basic rule states that when the marginal costs of using markets (transaction costs) are higher than the costs of running a firm (management costs), the transaction should be organized within the firm and vice versa. The reasons behind transaction costs are transaction difficulties. These are bounded rationality, opportunism, uncertainty and complexity, small numbers, information impactedness and asset specificity. Based on transaction cost theory, when a firm has already integrated its operational functions, the decision to outsource such functions to the market should be made if it is necessary to create or protect firm value

The basic premise is that if the transaction costs of contracting out to a third party (outsourcer) outweighs the production cost advantages then firms should execute the marketing function in-house. Transaction costs can be high due to three reasons: safeguarding, adaptation and measurement problems. They are the result of specificity of assets, environmental uncertainty and behavioral uncertainty, respectively

(Rindfleisch&Heide, 2007). First, highly specific assets may cause a problem as they have of little value outside the contractual relationship between the outsourcer and the outsourcee and may result in one of the two parties opportunistically exploitative behaviors.

2.2.2 Resource-Based View

This perspective is based on the firm's internal competence i.e., the resources and capabilities. According to Barney (1991), a firm's competitive advantage is derived from those capabilities that are unique and non-substitutable and are the main drivers of the firms' performance. According to RBV, a firm may outsource all activities other than its core competencies. RBV encourages the firm to evaluate whether it is more efficient to make a product in-house or to buy it from the market. Within this framework, outsourcing is more promising when the firm decides that a function is not part of its core competencies and it can acquire the right quality at the right price from an external provider. In the end the goal is to reduce cost and improve service and free up management talent for the firm's core strategic business concerns (Khosrowpour et al, 2006).

The inadequacies of the transaction-cost and resource-based views have brought about the relational view that draws from both the transaction cost and resource-based approaches. This view focuses on creating value through different forms of partnerships for both the parties. As discussed by Dyer & Singh (2008), relational rents are created wherein partners share, combine, or invest their assets, knowledge, or capabilities, or employ effective governance to lower their transaction costs or improve synergies. Thus,

a firm will enter into an outsourcing relationship only if the vendor-client relationship offers relational rents generated through inter-firm exchange or sharing of knowledge, capabilities, and assets.

2.3 Effect of outsourcing on organizational performance

Most corporations believe that in order to compete globally they have to look at efficiency and costs containment rather than relying strictly on revenue increases. As companies seek their competitive positions in an increasingly global market place, they are discovering they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core business (Mullin, 2006). Outsourcing plays a big role on organizational performance through;

2.3.1 Improved focus on core competence

Firms can maximize returns on internal resources by concentrating investments and energies on core competencies. Outsourcing will enable firms to transfer resources from non-value added staff functions to value-added core functions (Hayes et al. 2009). Outsourcing firms can also utilize the superior knowhow of the service provider to enhance their own production capabilities, which enables them to offer higher value and thus higher margin bearing products to their customers. By focusing on fewer, manageable core activities organizations could lessen the costs and complexity of their own operations. This provides better customer focus flexing and changing offerings and processes to meet changing customer demands. Outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business

that have nothing to do with the functions of a company. Companies can therefore concentrate on aspects of business that encircle their business objectives and eventually improve their business function (Kakabadse & Kakabadse, 2003).

2.3.2 Access to modern technology and expertise

Technology of the business exerts major influences on the internal environment and how it is organized, managed and carried out (Armstrong, 2002). The introduction of new technology may result in considerable changes to systems and processes he notes. The availability or the lack of technology in a firm may be the cause to outsource some human resource functions. Gilley et al., (2004) noted that outsourcing is useful for firms competing with increasing levels of environmental dynamism. For example, when new technologies emerge and mature technologies become obsolete, outsourcing enables firms to switch suppliers to exploit any cost or quality improvements that may then be available. On the contrary, this technology-related flexibility is not so necessary in stable environments because production and service technologies do not change so rapidly. Similarly, demand uncertainty makes outsourcing attractive because it allows firms to shift much of the risk associated with declining demand to supplier firms.

Outsourcing enables an organization to have means of accessing expertise not otherwise available. Particularly in the information technology era, companies may not have personnel available in house to take on certain projects. According to Bakas (2006) some services requires experts who are scarce. By outsourcing organizations seek technological knowhow can be achieved by using vendors with more expensive and more specialized processors. An outsider service would have the required resources for hiring proper

training facilities and inspection ability that many not be available if the function were kept in house. In addition if a company is growing rapidly the organization may not have time to recruit the workers needed and may outsource the necessary labour.

2.3.3 Cost Savings

Outsourcing reduces costs. According to Lange's et al. (2005) reduced costs would come from economies of scale and scope. Scale economies would come from using focused large scale specialists for activities where the outsourcers lack the necessary volume of requirements for current technology. Scope economies would be gained through access to a wide range of service provided by niche specialists. Outsourcing one's business functions can improve one's competitive advantage. Scope economies might also arise through the outsourcer providing complimentary assets. Successful implementation of outsourcing strategy has been accredited to cutting cost (Bowersox, 2010). Outsourcing can improve organizations effectiveness when applied as an organizational strategy. Usually companies may choose to outsource with certain business objectives in mind. The first objective amongst this, is the need to improve financial performance usually, such companies are aware that outsourcing companies may offer them an opportunity to work cheaply through efficient technology and economies of scale.

Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of their in house operations report significant savings on operational costs. Laugen et al., (2005) found a co relation between out sourcing best practice and high performing companies. Many companies decide to outsource because it

cut costs such as labour costs, regulatory and training costs. Outsourcing by reducing costs helps the organization to generate more profit. More profit comes in when vendors are able to purchase products at a less expensive rate and continue to sell them at a reasonable price for consumers. If some work can be outsourced it can cut down on this expense, which means that the business can operate more profitably. There is also less need for infrastructure.

2.4 Outsourcing and Organizational Performance

Outsourcing can improve organizational performance when applied as an organizational strategy. Outsourcing one's business processes can improve one's competitive edge. The reason behind this is that outsourcing reduces business costs. Organizations may choose to outsource with certain business aims in mind. The aim might be the need to improve on financial performance. Most time, such organizations are aware that outsourcing firms may offer them an opportunity to work cheaply through efficient technology and economies of scale (Greer et al. 2009). By minimizing costs, organizations can achieve their economic related goals and this enhances their organizational performance. Consequently, the extra amount that would have been passed to the consumers in the form of higher prices for the goods and services now becomes irrelevant as consumers pay less for their commodities. This allows businesses to compete favorably based on price thus giving them a competitive edge.

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance. According to Logan *et al.*, (2004) outsourcers who know how to manage the process can enhance their company's performance and

achieve a high level of satisfaction with the results. The business process outsourcing of non-core activities allows the organization to increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other firms to oversee tasks at which the business process outsourcing firm is at a relative disadvantage. This focus can improve results by allowing the firm to be more effective, more innovative and more skilled in those activities. Also, business process outsourcing can be used to increase the quality of work life. When the organization focuses on its core competences, especially for the remaining employees, some positive improvements may emerge. Focusing on core competences ensures that the job becomes more meaningful for the employees. Thanks to the new sources created, the organization may find new sources for wages and out-of-wage incentive programs. It can give more importance to the training of its employees and search for possibilities to develop them. Furthermore, it is seen that through such kinds of applications, leaner organizational structures are emerging; employees are delegated and their jobs are enriched

2.5 Challenges of Outsourcing

Outsourcing reduces a company's control over how certain services are delivered which in turn may raise the company's liability. Pearce and Robinson (2009) avers that by definition outsourcing places control and coordination of that function to outsiders, this is loss of control can result in many future problems such as delays in delivery, quality, customers complaints and loss competitive sensitive information. According to Lysons and Farrington (2006) Problems related to outsourcing include; overdependence on suppliers, costs escalation, lack of supplier flexibility, lack of managerial skills to control

suppliers and unrealistic expectations of outsourcing providers due to over promising at negotiations stage. Rely and Tamken (2006) mention that a principle objection to outsourcing is the possible loss of competitive advantage particularly the loss of skills and expertise of staff ,insufficient internal investments and the passing of knowledge and expertise to the suppliers which may be able to seize the initiative for their advantage. When a service is outsourced, clients gradually lose their understanding of the service over time. Even if the provider delivers innovative services to the client, a large proportion of the new knowledge required remains in the hands of the provider and cannot be transferred to the client. What is more serious, the firm may lose its capacity to stay up to date with the technological breakthroughs. Furthermore, the innovation capability of the firm itself can be reduced, since every innovation requires a sufficient availability of technical and economic resources, something that is not precisely favored by outsourcing.

Outsourcing initiative reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host organization to modernize them. Outsourcing can also improve certain financial measurements by eliminating the need to show return on equity from capital investments in non-core areas. One important risk is the possible loss of differentiation in the service, which, when outsourced to a supplier from whom another customer also acquires it, becomes easily imitable, and the possibility of gaining any competitive advantage from it is lost. Therefore, the organization must develop specific, idiosyncratic relationships that enable it to generate relational capabilities and rents. Along these lines, Reve, (2010) consider that companies

outsourcing key functions or functions central to their business must preserve the means to establish policy and direction as well as monitor delivery of the service and control the supplier. Depending on the extent to which these services can be controlled, companies can opt to outsource more strategic services as long as there are more capable suppliers.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the proposed research design, the target population, data collection instruments and the techniques for data analysis.

3.2 Research Design

The research design adopted was a descriptive cross sectional design. According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the; who, what, where, when and how much. Furthermore, a research design is structured, has investigative questions and part of formal studies. The design was appropriate because the main interest was to explore the viable relationship and describe how the factors support matters under investigation.

A cross sectional study looks at data collected across a whole population to provide a snapshot of that population at a single point in time. This kind of study was used to determine the influence of outsourcing strategy on performance of three-five star hotels in Nairobi. Descriptive design method provided quantitative data from cross section of the chosen population. This design provided further insight into research problem by describing the variables of interest.

3.3 Target Population

Population refers to an entire group of individuals, events or objects having common characteristics that can be observed and measured (Yin, 2003). The population of the

study comprised of all the three-five star hotels in Nairobi. According to the trip advisor magazine, there are twenty six 3-5 star hotels in Nairobi and all of them participated hence the study was a census.

3.4 Data Collection

The study used primary data that was collected through self-administered questionnaires containing both open ended and closed questions. Data was collected from all the twenty six purchasing managers. A questionnaire, as the data collection instrument of choice is, easy to formulate and administer and also provides a relatively simple and straight forward approach to the study of attitudes, values, beliefs and motives (Robson, 2002). Questionnaires may also be adapted to collect generalized information from almost any human population and results to high amounts of data standardization. It also allowed collection of large amounts of data at relatively low costs within a short period alongside a big allowance of anonymity that encourages frankness from the respondents especially in sensitive issues like governance and/or management.

Questionnaires are preferred because they ensured a high response rate as the questionnaires are distributed to respondents to complete and collected by research assistants. They also require less time and energy to administer, offer the possibility of anonymity because subjects' names are not required on the completed questionnaires and they have less opportunity for bias as they are presented in a consistent manner. The questionnaires were distributed through 'drop and pick' method and in some cases by email. There was follow-up to ensure that questionnaires are collected on time and assistance to the respondents having difficulty in completing the questionnaires was

offered. Follow-up calls were made to ensure that the questionnaires are dully filled within a reasonable period of time. This ensured that the information gathered was valid, reliable and suitable for this study.

3.5 Data Analysis

The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations). Once the data was collected, the questionnaires were edited for accuracy, consistency and completeness. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The responses were coded into numerical form to facilitate statistical analysis. Data was analyzed using statistical package for social sciences based on the questionnaires. In particular mean scores, standard deviations, percentages and frequency distribution were used to summarize the responses and to show the magnitude of similarities and differences. Results were presented in tables. Open ended questions were analyzed through content analysis.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to determine the influence of outsourcing strategy on performance of three-five star hotels in Nairobi County. This chapter presents the analysis, findings and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 26 questionnaires were issued out and only 18 were returned. This represented a response rate of 69%.

4.2 Demographic Profile

The demographic information considered in the study was ownership of the hotel, respondents' highest level of education, duration working in the hotel and the duration the hotel has been in operation.

The respondents were requested to indicate the ownership of the hotel. This was important for the study in order to determine the owners of the three to five star hotels operating in the country. The results are presented in Table 4.1.

Table 4.1 Hotel Ownership

Hotel Ownership	Frequency	Percent	Cumulative percent
Local	12	66.7	66.7
Foreign	5	27.8	94.4
Both local and Foreign	1	5.6	100.0
Total	18	100.0	

The results on the ownership of the hotels indicate that 66.7% of the respondents said that the hotels are local, 27.8% of the respondents said that the hotels are foreign while 5.6% of the respondents said that the hotels are both local and foreign. The results show that the hotel sector in Kenya is competitive due to the presence of both local and foreign firms who have experience on the industry and this necessitates outsourcing in order to improve performance.

The respondents were requested to indicate the highest level of education. The level of education was important in order to show the influence of outsourcing strategy on the performance of the three-five star hotels. The results are presented in Table 4.2

Table 4.2 Highest level of education

level education	Frequency	percent	Cumulative
Post graduate	10	55.6	55.6
University	8	44.4	100
Tertiary and below	0	0	
Total	18	100	

The results indicate that 55.6% of the respondents had attained postgraduate level while 44.4% of the respondents said that university level was their highest level of education. The results indicate that majority of the respondents have attained post graduate level. The results indicate that all the respondents were university graduates and above and

therefore they understand the influence of outsourcing strategy on performance of three to five star hotels.

The respondents were requested to indicate the length of service with the three-five star hotels. Length of service with the hotel was important in order to determine the respondents' level of understanding of internal information pertinent to the hotels. The results are presented in Table 4.3.

Table 4.3: Length of service with the hotel

Years	Frequency	Percent	Cumulative percent
Less than 5	2	11.1	11.1
5 – 10	3	16.7	27.8
Over 10	12	72.2	100.0
Total	18	100.0	

The results show that 72.2% of the respondents have worked in the three to five star hotels for a period of over 10 years, 16.7% of the respondents indicated that they have worked in their respective three to five star hotels for a period of 5 to 10 years while 11.1% of the respondents said that they have worked in the hotels for a period of less than 5 years. The results indicate that majority of the respondents have worked in the hotel industry for a long time and therefore they understand the influence of outsourcing strategy on performance and what needs to be done in order to get it right.

The respondents were requested to indicate the duration of hotel operation. This was important for the study in order to determine the influence that the duration would have on the three to five star hotels performance.

Table 4.4: Duration of Hotel Operation

Years	Frequency	Percent	Cumulative percent
Under 5	1	5.6	5.6
6-10	4	22.2	27.8
11-15	6	33.3	61.1
Over 15	7	38.9	100.0
Total	18	100.0	

Table 4.4 shows the results on the three to five star hotels duration of operation. The results show that 38.9% of the hotels have been in operation for more than 15 years, 33.3% of the respondents said that the hotels have been in existence for a period of between 11 and 15 years, 22.2% of the respondents noted that the hotels have been in existence for between 6 and 10 years while 5.6% of the respondents indicated that the hotels have been in operation for less than 5 years. The results indicate that the hotels have been in operation for a long time and therefore they have knowledge on the influence of outsourcing strategy on performance of the hotels.

4.3 Outsourcing Strategy

Outsourcing as a key business strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes and outsourcing strategy has been adopted.

4.3.1 Reasons for outsourcing

The respondents indicated that all the three to five star hotels have outsourced some of their business processes. These processes include construction, cleaning and security. It is as a result of these findings that the respondents were requested to indicate the reasons that influence the hotel to pursue outsourcing strategy in a five point Likert scale. The range was 'very low extent (1)' to 'very great extent' (5). The scores of very low extent and low extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ($0 \leq S.E. < 2.4$). The scores of 'moderate extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: ($2.5 \leq M.E. < 3.4$) and the score of both large extent and very large extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; ($3.5 \leq L.E. < 5.0$). A standard deviation of >0.9 implies a significant difference on the impact of the variable among respondents

Table 4.5: Reasons for outsourcing

Reasons for outsourcing	Mean	Std. Deviation
To develop and focus on fundamental functions	4.6151	.7775
To access the world-class abilities and facilities	4.5846	.6157
Long-term flexibility	4.3342	.8401
The acceleration of reengineering advantages	3.8371	1.5048
To increase sections and functions (evolution and change in the organization)	3.0586	1.5135
To have a perfect to the best experiments and to achieve new skills	3.1637	1.5434
To access to new services	3.1609	1.6890
To reduce the costs and the overall price of the products by finding suppliers who have better functions and lower cost structures	4.2778	.8264
To create or increase liquidity	3.8715	1.1826

Table 4.5 shows that the reasons for outsourcing by the three to five star hotels were indicated by the respondents as the need to develop and focus on fundamental functions with a mean score of 4.6151. The respondents further noted that access to world-class abilities and facilities and long-term flexibility with a mean score of 4.5846 and 4.3342 were other reasons for outsourcing strategy adoption. Other reasons for outsourcing were indicated as the need to reduce the costs and the overall price of the products by finding

suppliers who have better functions and lower cost structures (mean 4.2778), increase liquidity (mean 3.8715) and acceleration of reengineering advantages (mean 3.8371). The respondents were in agreement to a moderate extent that outsourcing was as a result of the need to have perfect experiments and to achieve new skills (mean 3.1637), access new services (mean 3.1609) and increase sections and functions (evolution and change in the organization) with a mean score of 3.0586. The results indicate that the hotels adopted outsourcing strategy in order to focus on their functions, increase flexibility, access to world-class abilities and facilities and lower costs.

4.4 Effect of Outsourcing on Organizational Performance

Outsourcing can improve organizational performance when applied as an organizational strategy. Outsourcing one's business processes can improve one's competitive edge. Most time, such organizations are aware that outsourcing firms may offer them an opportunity to work cheaply through efficient technology and economies of scale.

4.4.1 Effect of outsourcing on focus and core competence

The question sought to know the extent to which outsourcing affect the hotel focus and core competence. Core competencies must provide a Company with either a real or perceived advantage. The results are indicated in Table 4.6.

Table 4.6: Effect of outsourcing on focus and core competence

Effect of outsourcing on focus and core competence	Mean	Std. Deviation
It enables the hotels to lessen the costs and complexity of their own operations thus better customer focus flexing	4.3861	1.0369
It enables the hotels to concentrate on aspects of business that encircle their business objectives and eventually improve their business function	4.4086	.6157
It enables the hotel to grow without a corresponding expansion in organizational size or bureaucracy	4.2749	.9851
It results in hotels performing well in their core competencies and mitigate shortage of skill in the areas where they want to outsource	4.7152	.5745
It heightens consumer satisfaction	4.5139	.9235

As indicated in table 4.6 the adoption of outsourcing strategy has resulted in the hotels performing well in their core competencies and mitigating shortage of skill in the areas where they want to outsource (mean 4.71), heightens consumer satisfaction (mean 4.51) and that it enabled the hotels to concentrate on aspects of business that encircle their business objectives and eventually improve their business function (mean 4.41). it was further revealed that outsourcing strategy has enabled the hotels to lessen the costs and complexity of their own operations thus better customer focus flexing (mean 4.38) and that it has enabled the hotels to grow without a corresponding expansion in organizational

size or bureaucracy (mean 4.27). The results show that the hotels have outsourced some of their processes in order to focus on its core competence which will enable the hotel to achieve competitive advantage over its competitors.

4.4.2 Effect of outsourcing on access to modern technology and expertise

Outsourcing enables an organization to benefit from complimentary assets by partnering with organizations whose resource bases compliment one's own and it is as a result of these that the sought to establish the effect of outsourcing on access to modern technology.

Table 4.7: Effect of outsourcing on access to modern technology and expertise

Effect of outsourcing on access to modern technology and expertise	Mean	Std. Deviation
It allows hotels to exploit their more advanced technologies	4.4528	.8555
It enables the hotels to effect improvement in efficiency	4.3829	.5016
It results in hotels improved service qualities	4.6157	.6076
It helps the hotels from being locked up into specific assets and technologies	4.6394	.4850
It enables the hotels to access companies with latest technological and to increase their competitive edge	4.7241	.4277

The results in table 4.7 show that the respondents were in agreement that access to modern technology and expertise has enabled the hotels to access companies with latest

technological and to increase their competitive edge (mean 4.72), helps the hotels from being locked up into specific assets and technologies (mean 4.6394) and that it helps the hotels improve service quality (mean 4.6157). The respondents further noted that modern technology and expertise enables the hotels to exploit their more advanced technologies (mean 4.4528) and that it enables the hotels to effect improvement in efficiency with a mean score of 4.3829. It can be concluded that the hotels have adopted outsourcing strategy in order to achieve competitive advantage through improved service quality, advanced technologies and efficiency.

4.4.3 Effect of outsourcing on hotel cost savings

Successful implementation of outsourcing strategy has been accredited to cutting cost and it is as a result of these that the study sought to establish from the respondents the effect of outsourcing on hotel cost savings.

Table 4.8: Effect of outsourcing on hotel cost savings

Effect of outsourcing on hotel cost savings	Mean	Std. Deviation
It enables the hotels to reduce costs from economies of scale and scope	4.4508	.8648
It free up assets and reduce costs in the immediate financial period	4.3612	1.0289
Outsourcing by reducing costs helps the organization to generate more profit	4.3827	1.0394
It enables the hotels to reduce product costs like labour costs, capital expenditure cost	4.4319	.8555
It has enabled the hotels to streamline production process	4.6258	.7775

The respondents were requested to indicate the effect of outsourcing on cost savings and it was found out that outsourcing has enabled hotels to streamline production process (mean 4.62). The respondents were further in agreement that it has enabled the hotels to reduce costs from economies of scale and scope (mean 4.45), reduce product costs like labour costs, capital expenditure cost (mean 4.41), helps the hotels generate more profits (mean 4.38) and that it free up assets and reduce costs in the immediate financial period with a mean score of 4.36. The results show that outsourcing strategy has enabled the hotels to reduce costs which help the hotels to generate more profits through economies of scale, streamlining of production process and reduction of product costs like labour costs, capital expenditure cost

4.5 Outsourcing and Organizational Performance

Outsourcing is good for business because there are certain situations that can be avoided through it. When that business function is outsourced, then organizations will not even feel the pinch. This means that organizations can dedicate their resources to productive activities alone and thus enhance their effectiveness and efficiency. It is as a result of these that the respondents were requested to indicate the extent to which the performance of hotels was affected by outsourcing. The results are shown in table 4.9

Table 4.9: Outsourcing and Organizational Performance

Outsourcing and Organizational Performance	Mean	Std. Deviation
Improved quality and the service	4.3918	.8623
Results in reduced costs and improve its competitive position	4.4175	.7762
Increased capacity of innovation and flexibility	4.5093	.8492
Increased customer satisfaction	4.5537	.7047
Improved organizational competitiveness	4.3869	.7775
Increase sales turnover and profitability	4.3718	1.1009

From the findings, outsourcing of processes in the three to five star hotels have resulted in increased customer satisfaction with a mean score of 4.5537. The respondents further noted that outsourcing has increased capacity of innovation and flexibility (mean 4.5093) and reduced costs and improve its competitive position (mean 4.4175). The respondents further indicated that outsourcing has helped the hotels improve the quality and the

service (mean 4.39), organizational competitiveness (mean 4.380) and increased sales turnover and profitability with a mean score of 4.37. It can be concluded that outsourcing strategy has great effect on performance of hotels as it enables them to increase customer satisfaction, innovation and flexibility, reduce costs, and improve quality, competitiveness and profits.

4.6 Outsourcing Challenges

As a business development move, outsourcing comes with certain disadvantages which can be external or internal in nature. The respondents were requested to indicate the challenges encountered by the hotels as a result of adopting outsourcing strategy. The results are shown in Table 4.10

Table4.10: Outsourcing Challenges

Outsourcing Challenges	Mean	Std. Deviation
Reduced a company control over how certain services are delivered which in turn may raise the company's liability	3.8425	.9503
Delays in delivery	3.9327	.8959
Costs escalation	3.6824	.8591
Customer complaints	2.6159	.7406
Loss of competitive sensitive information	3.6047	.9479
Lack of supplier flexibility	2.8342	.7443
Lack of managerial skills to control suppliers	3.5139	.8349
Loss of up to date technological breakthroughs	3.2761	.9836

The results on outsourcing challenges in the hotels indicate that the respondents said that the hotels encounters challenges emanating from delays in delivery with a mean score of 3.9327. Other challenges were indicated as reduced a company control over how certain services are delivered which in turn may raise the company's liability and costs escalation with a mean score of 3.8425 and 3.6824 respectively. The respondents further agreed that loss of competitive sensitive information (mean 3.6047) and lack of managerial skills to control suppliers (mean 3.5139). The respondents agreed to a moderate extent on the challenges occasioned by loss of up to date technological breakthroughs (mean 3.27), lack of supplier flexibility (mean 2.83) and customer

complaints (mean 2.61). The results show that outsourcing strategy has its challenges that need to be considered by the hotels before deciding the processes they need to outsource as this will caution the hotels from losses.

4.7 Discussion of the findings

Globalization and accelerated competition as well as the ever increasing consumers demand for value have pushed firms to create value through efficient use of limited resources; outsourcing is one of the ways through which firms attempt to address the new requirements of the market place. Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements. Kakabadse and Kakabadse (2003) noted that by focusing on fewer, manageable core activities organizations could lessen the costs and complexity of their own operations. This provides better customer focus flexing and changing offerings and processes to meet changing customer demands. Companies can therefore concentrate on aspects of business that encircle their business objectives and eventually improve their business function. This is consistent with the findings of the study which established that by focusing on core competence, the hotels were able to perform well in their core competencies and mitigating shortage of skill, heightens consumer satisfaction, concentrate on aspects of business that encircle their business objectives, enabled the hotels to lessen the costs and complexity of their own operations and that it has enabled the hotels to grow without a corresponding expansion in organizational size.

Technology of the business exerts major influences on the internal environment and how it is organized, managed and carried out and this was found in the study as access to modern technology and expertise allowed the hotels to access latest technology and increase competitive edge, helps the hotels from being locked up into specific assets and technologies, helps the hotels improve service quality, enables the hotels exploit their more advanced technologies and that it enables the hotels to effect improvement in efficiency. This is tandem with Lamming (1993) who notes that as suppliers may be significantly more significantly more advanced; outsourcing to them allows organizations to exploit their advanced technologies. Successful implementation of outsourcing strategy has been accredited to cutting cost in organizations. The study found out that outsourcing by the hotels has resulted in hotels streamlining their production process, reduce costs, generate more profits free up assets and reduce costs. The results are in agreement with the findings of Perry (2007) who noted that contracting out production of goods and services to a firm with competitive advantages in terms of reliability, quality, increased profits and cost as a result of economies of scale and scope and streamlining their production process.

Outsourcing is good for business because there are certain situations that can be avoided through it and the pursuit of outsourcing strategy by the hotels resulted in increased customer satisfaction, capacity of innovation and flexibility, reduced costs, improved quality of service, organizational competitiveness and increased sales turnover and profitability. The results are consistent with Steensma and Corley (2000) findings that successful implementation of an outsourcing strategy has been credited with helping to

cut cost, increase capacity, improve capacity, improve quality, increase profitability and productivity, improve financial performance, lower innovation costs and risks and improve organizational competitiveness. Although outsourcing strategy has several benefits that accrue to the hotels, it has also challenges which need to be considered before adopting the strategy. The challenges encountered by the hotels were found to be delays in delivery, reduced control over how certain services are delivered, costs escalation, loss of competitive sensitive information and lack of managerial skills to control suppliers. The results are in tandem with the findings of Lysons and Farrington (2006) who noted that problems related to outsourcing include; overdependence on suppliers, costs escalation, lack of supplier flexibility, lack of managerial skills to control suppliers and unrealistic expectations of outsourcing providers due to over promising at negotiations stage.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, conclusion, limitations and recommendations of the study. The suggestion for further research was also highlighted.

5.2 Summary

The study found out that all the three to five star hotels have outsourced some of their processes in order to develop and focus on fundamental functions, access world-class facilities, long-term flexibility, reduce costs, increase liquidity and accelerate of reengineering advantages. Outsourcing enables an organization achieve adequacy of the required resources as resources previously used in providing the outsourced services are used to supplement resources used in the core activities of service provision. Outsourcing has enabled the hotels to concentrate on their core competence therefore they are able to allocate more time to essential activities and thus the overall efficiency of the organization. By concentrating on only a few tasks the management is able to greatly improve the overall performance of the organization. By concentrating on a few activities, the hotels has been able to heightens consumer satisfaction, concentrate on aspects of business that encircle their business objectives, enabled the hotels to lessen the costs and grow without a corresponding expansion in organizational size.

On access to modern technology and expertise, the study found out that the hotels have been able to access latest technology and increase competitive edge, lock up specific assets and technologies, improve service quality, exploit more advanced technologies and

improve efficiency. With the use of modern technology availed by the outsourcing partners and as entities involved are specialized in the activities they undertake the productivity of the hotels has increased tremendously. Through efficient transport provided by the hotels, employees are able to arrive at working stations on time and thus no production capacity is wasted. The study found out that outsourcing has enabled the hotels to reduce costs associated with capital expenditure, transport, labour, cleaning and security. The reduction in costs has enabled the hotels to streamline their production process and the hotels are able to produce and price their services at competitive prices which result in increased sales and profitability.

Competitive pressures and the need for enhanced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide and the hotel industry is not an exception. The hotels were found to have outsourced their processes which result in increased customer satisfaction, capacity of innovation and flexibility, reduced costs, improved quality of service, organizational competitiveness and increased sales turnover and profitability. Although outsourcing results in improved hotel performance and other competitive advantages, the study found out that hotels are faced by various challenges that include delays in delivery, reduced control over how certain services are delivered, costs escalation, loss of competitive sensitive information and lack of managerial skills to control suppliers.

5.3 Conclusions

Outsourcing strategy is at the center of the process of organizational changes and business structure. In this respect, these processes may be preceded by radical changes

which lay the ground work for process re-engineering. The trend towards virtual corporations based on the relationship of cooperation among several firms starts with the identification and exploitation of the concept of core competences, in such a way that new advantages are obtained from specialization and that the customer receives added value superior to the levels previously offered. The contemporary relationship of firms to their business surroundings are conditioned by the changes in technology and the economic environment. Firms face these alterations to their surroundings by making qualitative change in the way that they perform their activities and structure their organization.

Outsourcing strategy goal can either improve or impede organizational performance, and decisions of organization to outsource involve cost reduction, focus on core competence and access to modern technology and expertise. Outsourcing strategies were found to help improve performance through increased customer satisfaction, capacity of innovation and flexibility, reduced costs, improved quality of service, organizational competitiveness and increased sales turnover and profitability. However, outsourcing can also impede hotel performance through: delays in delivery, reduced control over how certain services are delivered, costs escalation, loss of competitive sensitive information and lack of managerial skills to control suppliers. From a strategic standpoint, outsourcing allows the firm to concentrate its efforts on consolidating and expanding its core competences. On the other hand, among the operational advantages, we find an increase in efficiency as a result of activities being carried out by specialized firms and reductions in permanent staff, which then become variable costs related to the level of activity.

5.4 Limitations of the Study

This exploratory empirical investigation into outsourcing strategy provides tentative avenues for increasing the probability of success of outsourcing business functions and raises many issues for further study of the outsourcing phenomenon. This study is limited by its small sample within the same sector and hotel sizes. In addition, a survey methodology was also used, which is susceptible to both misinterpretation and common method variance. Despite these limitations, the research contributes to developing an understanding of outsourcing in identifying areas that need further research. Thus, the study depicts that in some instances, one of the primary risks to organizations is the effect of outsourcing on employee morale and performance. Nevertheless, more must be learned about the specific changes made to human resources functions, how these were successfully implemented, and how they contributed to the outsourcing achievements.

Similarly, the study found that hotels with different levels of success at outsourcing identified different factors as problems in the outsourcing strategy. These factors need to be explored in more depth to identify those that must be managed to ensure the highest level of success of an outsourcing strategy.

5.5 Recommendations

This study has several implications in the areas of policy making, theory of outsourcing and its practice. For policy makers in government and in the hotel industry there is need to come up with policies that will spur the growth of the industry. The present boom in the industry should be exploited by the tourism stakeholders to further attract tourist into this sector of Kenyan economy that can lead to economic transformation of the country.

This study found that many hotels will continue to practice outsourcing as a strategic tool for management of their operations. It is therefore important that proper decisions in the identification of competent vendors and drawing of service level agreement as well as measuring performance be done with diligence. Conducting review sessions with service providers is necessary for the success of outsourcing relationship.

The study recommends that three to five star hotels should consider outsourcing more if not all their non-core business to outside providers as a major strategy of remaining competitive. This is because outsourcing gives hotel management and staff more time to concentrate on core business to produce quality product to out compete their competitors in the market place and hence a source of competitive advantage .

Hotel managers agree that successful outsourcing requires a shift in their mindset, which means that they must manage their contractors and workers in order to improve on efficient service delivery. Integrating and managing a diverse, split work force embodying different corporate cultures and perhaps divided loyalties can be a daunting assignment compared to the more traditional approach to work force management. Outsourcing usually reduces hotel's control over how certain services are delivered, which in turn may raise the hotel's liability exposure. Hotels that outsource should continue to monitor the contractor's activities and establish constant communication.

5.6 Suggestions for Further Research

The data collection instrument that was used for this study was a standard questionnaire which usually limits the ability to collect information beyond the questions contained within the survey instrument. Future research may use a qualitative case-based approach that uses in-depth interviews to solicit unstructured views about opportunistic behavior and suppliers.

This study used a cross sectional research design approach, the behaviors of the variables over time were could therefore not be analyzed and this restricts the applicability of the findings since longitudinal study may give different results from the ones that were obtained by this work. Lastly, future research could employ a larger sample involving different sectors. These future studies may also want to involve key respondents from suppliers that may have provided outsourced goods and or services. It would be interesting to compare and contrast viewpoints of both buyers and suppliers and in so doing , may provide insights into the basis for the phenomenon examined by this research that is otherwise unavailable at this time.

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APPENDIX I: QUESTIONNAIRE

Please give answers in the spaces provided and tick (✓) in the box that matches your response to the questions where applicable.

Section A: Demographic Information

1. Name of the hotel.....

2. What is your highest level of education qualification?

a) Post graduate level () b) University ()

c) Tertiary College () d) Secondary ()

3. How long have you worked with the hotel?

a) Less than five years ()

b) 5-10 years ()

c) Over 10 years ()

4. What is the ownership of the hotel?

a) Local ()

b) Foreign ()

c) Both local and foreign ()

5. For how long has the hotel been in operation in Kenya?

- a) Under 5 years () b) 6 – 10 years ()
c) 11 – 15 years () d) Over 15years ()

6. What is the size of the hotel?

- a) Less than three star ()
b) Three star ()
c) Four star ()
c) Five star ()

Section B: Outsourcing

6. Has the hotel been outsourcing some of its business processes?

- Yes () No ()

7. Which are these processes.....

8. To what extent did the following reasons influence your hotel to pursue outsourcing strategy? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Reasons for adopting Outsourcing	5	4	3	2	1
To develop and focus on fundamental functions					
To access the world-class abilities and facilities					
Long-term flexibility					
The acceleration of reengineering advantages					
To increase sections and functions (evolution and change in the organization)					
To have a perfect to the best experiments and to achieve new skills					
To access to new services					
To reduce the costs and the overall price of the products by finding suppliers who have better functions and lower cost structures					
To create or increase liquidity					
Others (Specify).....					

Section C: Effect of outsourcing on organizational performance

9. To what extent do you agree with the following regarding the effect of outsourcing on the hotel focus and core competence? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Focus and core competence	5	4	3	2	1
It enables the hotels to lessen the costs and complexity of their own operations thus better customer focus flexing					
It enables the hotels to concentrate on aspects of business that encircle their business objectives and eventually improve their business function					
It enables the hotel to grow without a corresponding expansion in organizational size or bureaucracy					
It helps firms to perform well in their core competencies and mitigate shortage of skill in the areas where they want to outsource					
It results in hotels performing well in their core competencies and mitigate shortage of skill in the areas where they want to outsource It heightens consumer satisfaction.					

10. To what extent do you agree with the following regarding the effect of outsourcing on the hotel access to modern technology and expertise? Use 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly agree.

Access to modern technology and expertise	5	4	3	2	1
It allows hotels to exploit their more advanced technologies					
It enables the hotels to effect improvement in efficiency					
It results in hotels improved service qualities					
It helps the hotels from being locked up into specific assets and technologies					
It enables the hotels to access companies with latest technological and to increase their competitive edge					

11. To what extent do you agree with the following regarding the effect of outsourcing on the hotel cost saving? Use 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly agree.

Cost Savings	5	4	3	2	1
It enables the hotels to reduce costs from economies of scale and scope					
It free up assets and reduce costs in the immediate financial period					
Outsourcing by reducing costs helps the organization to generate more profit					
It enables the hotels to reduce product costs like labour costs, capital expenditure cost					
It has enabled the hotels to streamline production process					

12 To what extent has outsourcing of services affected the performance of the hotels through the following? Use 1- Very low extent, 2- low extent, 3- Moderate extent, 4- Great extent and 5-Very great extent.

Outsourcing and Organizational Performance	5	4	3	2	1
Improved quality and the service					
Results in reduced costs and improve its competitive position					
Increased capacity of innovation and flexibility					
Increased customer satisfaction					
Improved organizational competitiveness					
Increase sales turnover and profitability					

Section D: Outsourcing Challenges

13 To what extent has your hotel encountered the following challenges as a result of outsourcing? Use 1- Very low extent, 2- low extent, 3- Moderate extent, 4- Great extent and 5-Very great extent.

Outsourcing and Organizational Performance	5	4	3	2	1
Reduced a company control over how certain services are delivered which in turn may raise the company's liability					
Delays in delivery					
Costs escalation					
Customer complaints					
Loss of competitive sensitive information					
Lack of supplier flexibility					
Lack of managerial skills to control suppliers					
Loss of up to date technological breakthroughs					

APPENDIX II: THREE TO FIVE STAR HOTELS IN NAIROBI

1. 680 Hotel Nairobi
2. Best Western Premier
3. Boma inn hotel Nairobi
4. Country Lodge
5. Dusit d2 Nairobi
6. Eka Hotel
7. Fairmont the Norfolk
8. Fairview Hotel
9. Hill park Hotel
10. Hilton Hotel Nairobi
11. Inter-Continental Hotel Nairobi
12. Jacaranda Hotel
13. Nairobi Serena
14. Ole Sereni Hotel
15. Pride Inn Hotel
16. Safari Park Ho6tel
17. Sankara Hotel Nairobi
18. Sarova Panafric
19. Sarova Stanley Nairobi
20. Silver Springs Hotel
21. Southern Sun Mayfair
22. The Heron Portico

23. The Panari Hotel

24. Tribe Hotel

25. West Breeze Hotel

26. Windsor Golf Hotel and Country Club

Source (Trip advisor magazine)