

**OUTSOURCING STRATEGY AND PERFORMANCE OF  
KENYA INSTITUTE OF MANAGEMENT**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
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# DECLARATION

## Student's declaration

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature  .....

Date 11/11/12 .....

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**REG. D61/60548/2011**

## Supervisor's Declaration

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

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## **DEDICATION**

I dedicate this work to my daughter Kyla Ochweri who is my inspiration in wanting to become a better person and having the drive to achieve more out of life. May this be an inspiration to you to strive for even greater heights. To my parents and siblings who have always supported me and stood by me and for the foundation that you laid for our family. A special dedication to my brother Daniel Ochweri, who has been my biggest supporter and champion. To you all who helped me in the completion of this project I dedicate this work.

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## ABBREVIATIONS AND ACRONYMS

<b>KIM</b>	-	Kenya Institute of Management
<b>IT</b>	-	Information Technology
<b>BPO</b>	-	Business Process Outsourcing
<b>MUA</b>	-	Management University of Africa
<b>SMEs</b>	-	Small and Medium Enterprises
<b>SLA</b>	-	Service Level Agreement

## **ABSTRACT**

Outsourcing is contracting with another company or person to do a handle particular functions or activities of an organization. Almost every organization outsources its activities to some extent. Typically, the function being outsourced is considered non-core to the business. The study focused on outsourcing and organizational performance Kenya Institute of Management and the purpose of the study was to assess the impact of outsourcing on organizational performance, based on the following objectives; to establish the importance of outsourcing in the organization, to investigate factors affecting performance of the organization and to establish challenges associated with outsourcing. In carrying out the study, the researcher used both descriptive and qualitative research designs. A total of 8 respondents were sampled and simple random sampling method was employed and interview guides were used to gather views from the respondents. The data was then analyzed using content analysis. The study revealed that outsourcing is a live issue that is of particular importance to decision makers. It also revealed that outsourcing is quickly moving from a cost saving measure to a key part of corporate strategy. Outsourcing begins with understanding a business's core identity. By understanding what gives a company competitive advantage, it is then able to effectively analyze which activities it is doing that can be done by a third party thereby giving room to focus on its core competencies. The findings of the study reveal that outsourcing certain activities has generally improved the performance of KIM. However, the institution needs to take measures to mitigate the risks that are involved in outsourcing to guard themselves against risks of atrophy, poor quality services.



# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Johnson and Scholes (2002) define 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. Strategies exist at several levels in any organization - ranging from the overall business (or group of businesses) through to individuals working in it. There are three different levels of strategy within an organization namely corporate level strategy which is concerned with the overall purpose and scope of the business, business level strategy which is concerned with ensuring that the business gains competitive advantage in the market and finally operational level strategy whose main focus is the efficiency of resources, processes and people within the organization. An organization employs a specific strategy to ensure that achieves long term sustainability and gain competitive edge. Strategic management scholars have offered a number of strategies that an organization can employ in order to achieve these. Some examples of such strategies are, Diversification Strategy, Turnaround Strategy, Mergers and Acquisitions, Vertical Integration, Outsourcing Strategy and Strategic Alliances. This paper will focus on outsourcing strategy and its effects on the performance of an organization.

The last two decades have witnessed significant trend towards ever-increasing outsourcing strategy by firms in most developed countries. As businesses search for new ways to reduce costs, improve their internal processes and operational efficiencies and to stay ahead of the competition, outsourcing strategy has become an integral part of most businesses. The concept of outsourcing was a result of a paradigm shift that caused organizations to rethink the strategy of owning all the factors of production and deciding to move non-core activities to where the experts and their resources are. Leveraging the capabilities of more capable suppliers allows organizations to outsource more critical business processes and enhance their own internal core capabilities that drive competitive advantage.

### **1.1.1 Outsourcing Strategy**

Maintaining a competitive advantage in today's global economy means businesses must be flexible to adapt to market conditions; reduce costs while increasing productivity; as well as have access to cost-effective, highly skilled resources. More and more organizations are looking to outsource business services, such as IT support and services, to allow them to focus on the organization's core competencies and meet the growing complexities of doing business.

With over fifty years of organizations seeking external expertise for numerous business processes, from legal services to building maintenance, outsourcing is a proven business strategy. In the information technology community, outsourcing is becoming more prevalent as it matures. While a reduction in costs may be the initial driving force in investigating outsourcing, it is a whole of business approach that will deliver long-term points of difference for an organization.

A few attempts have been made in trying to define what outsourcing is. Despite its increasing importance, many firms still do not have a clear understanding of the benefits and costs of outsourcing strategy (Smith et al., 1998). Generally, outsourcing can be defined as the act of transferring work that needs to be completed to an external party. It involves the transfer of factors of production, the resources used to get the job done as well as the decision rights or the responsibility of making decisions.

Lei and Hitt (1995) have defined outsourcing as the 'reliance on external sources for manufacturing components and other value-adding activities'. In contrast, Gilley and Rasheed (2000) argue that outsourcing is simply a purchasing decision; no firm is completely self-sufficient, and all firms purchase some inputs from outside. Quinn (1999) defined outsourcing as the devolution of the day-to-day performance of services to an external agency, usually under a contract with agreed standards, costs and conditions, but with responsibility for those services remaining with the outsourcing organization.

According to Quinn and Hilmer (1994), outsourcing should be integral to an organization's overall strategy. The organization therefore needs to have a clear map of what its internal activities in contrast to applying outsourcing strategy. Quinn (1999) suggests that the reasons for outsourcing have evolved from primarily cost disciplines to strategic re-position, core competence enhancement, greater service integration and higher value creation. Organizations are driven into making outsourcing decisions as a result of costs, technology and knowledge enhancement considerations. The primary motive of outsourcing strategy is therefore to improve incentives within the organization. Implementing a successful outsourcing strategy involves an analysis of a number of dimensions including relative capability in the process, contribution of the process to competitive advantage and the potential for opportunism from outsourcing the process.

### **1.1.2 Organizational Performance**

Performance management systems allow an organization to align its business activities to its strategy and to monitor performance toward achieving strategic goals over time. Organizational performance is one of the key ingredients in determining the success or failure of the organization. Measuring performance is not an easy fete to achieve, especially when that which is to be measured keeps changing. Having the appropriate tools to identify performance strengths and gaps gives an organization and its workforce clarity and allows for there to be a platform for addressing performance issues in a structured manner. There are different ways through which organizations can measure performance.

Management by objectives – high performing organizations actively identifies “key performance indicators,” and measures their progress against established target values for those indicators, as a way of measuring individual and organizational effectiveness (P. Drucker, 1954).

Use of the balanced score card - the balanced score card integrates four sets of measurements, complementing traditional financial measures with those driving future performance. These four areas are financial, internal business processes, learning and development and the customer. Other performance measurement frameworks include, activity based costing, competitive benchmarking, and shareholder value added.

### **1.1.3 Management Development in Kenya**

In general terms, management may be defined as the organization and coordination of the activities of an enterprise in accordance with certain policies and in achievement of defined objectives. The basic task of a management is twofold: marketing and innovation. Practice of modern management can trace its origin to the 16th century enquiry into low-efficiency and failures of certain enterprises. In Kenya, the practice of management has continued to grow in popularity and importance in equal measure. Basically, management development is a term that describes any number of activities that reflect a planned effort to enhance employees’ ability in various individual and team management techniques. Many organizations have dedicated their practices in the development of management practices for both individuals and organizations alike. Modern professionals have recognized the importance of growing their professional stature and it is therefore not

uncommon to hear references such as continuous professional development and business development services. For individuals, management development includes memberships to professional organizations, attendance of trainings, workshops and seminars that are targeted towards growing various management skills. For businesses, management development includes the offering for consultancy services for business start-up, expansion, rehabilitation, management, monitoring and evaluation among other essential skills. Business Development Services may be defined as those services and products offered to entrepreneurs at various stages of their business development journey, from business idea development all the way to growth and maturity of the business. These services are mainly aimed at skills transfer or business advice.

Management development is important because it provides the more practical and leadership training that will promote the skills necessary to improve business performance. In Kenya, there are a number of trusted names that can be said to be giants when it comes to management development, training and consultancy services for individuals and for business. These include institutions such as Kenya Institute of Management, Deloitte and Touché, Ernst and Young, Institute of Human Resource Management among others.

#### **1.1.4 The Kenya Institute of Management**

The Kenya Institute of Management (KIM) is a membership based non-profit making professional management development organization committed to the promotion of excellence and integrity in the practice of management. The institute was established in 1954 as a premier institute that provides management consultancy and capacity building services to corporate organizations and other institutions. The mission of KIM is to steer and champion excellence, integrity and competitiveness in individuals and organizations throughout Africa and beyond.

KIM which has been in operation for nearly six decades has undergone major transformation in the recent past. The Institution was initially a membership based organization whose focus was to build capacity among the present and future leaders of Kenya. Currently, KIM boasts of a portfolio of business units that include; an SME Solution Centre, the “Management Magazine’ a publication that targets upper and middle level decision makers within the organization, the KIM school of Management that offers Diploma and certification courses for upcoming and established professionals and it recently sponsored a university – The Management University of Africa (MUA) – whose main focus is to offer degree, Master and doctorate degrees in leadership and management.

KIM outsources a number of its internal processes including, payroll, IT services, cleaning services, security services among others. The payroll services have been outsourced to ComTech Limited while the IT services are doubly managed by Safaricom Kenya Limited and Access Kenya. Similarly security, mail delivery and cleaning services have been outsourced to G4S and Parapet Limited respectively.

## **1.2 Research Problem**

Organizations will only survive in a turbulent environment if they employ adequate strategy formulation and implementation processes. Efling and Bave (1994) define outsourcing as a contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently pursuing internally. This then allows the company to then concentrate on activities that are core to the business. Most business undertake outsourcing strategy as a cost cutting measure but most firms do not evaluate the extent to which outsourcing strategy is in alignment with overall organizational goals and objectives. Accordingly, a critical challenge facing organizations is how to effectively organize and manage a well-planned outsourcing strategy in accordance with the direction of its business strategy

The management development sector in Kenya has slowly transformed from the preserve of a few to one of the most competitive sectors with recent days seeing a significant rise in the number of organizations that are offering management development, training and consultancy services.



To remain competitive and improve services, these institutions, like business and other public entities, have increasingly turned to a variety of popular management approaches, including outsourcing. The Kenya Institute of Management, being a player in this sector has been forced to put in place strategies that ensure competitive advantage over its close competitors. KIM has incorporated outsourcing strategy in its day to day operations with the aim of reducing overall operational costs by focusing on its core activity in order to achieve organizational goals.

Early research on outsourcing strategy mainly focused on transactional costs but later on, strategic themes were addressed in the overall organizational context (Chalos, 1994). A number of studies have been carried out on outsourcing strategy and the role that it plays in the current business environment. Good examples include Mwangangi (2007), Nyamamba (2007), Machoka (2008) Mwando (2010), and Rono (2011) some of these studies were in outsourcing in an IT context while others relate to business process outsourcing and its impact on organizational performance. Although a number of studies have been done on strategic outsourcing, it still remains unclear what tools are used to measure the effectiveness of an outsourcing strategy to an organization and to what extent outsourcing strategy affects the performance of said organization if at all. This research therefore intends to address the following question; to what extent has the adoption of outsourcing strategy by the Kenya Institute of Management improved the overall performance of the organization?

### **1.3 Research Objective**

The objective of this study was to establish the effect of outsourcing strategy on performance at the Kenya Institute of Management.

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

The findings of this study are significant in offering direction to managers to assist them in measuring the effectiveness of employing an outsourcing strategy in their organizations. Strategy is ideally meant to guide the operations of an organization in a specific direction and to ensure long term sustainability of the organization. For managers, these findings are important as they are able to measure effectiveness of outsourcing and indeed other strategies to enable them make informed decisions when charting the directions that their organizations will take.

Organizations may find this study and its findings useful in drawing up regulatory policy guidelines governing outsourcing practices by Educational and training institutions. This study may also serve as a reference for other researchers and academicians in the field of strategic management. Furthermore, the study will also through exploration recommend additional areas for further research that may form a basis for future research projects

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This study will look at the literature review relating to the concept of outsourcing in the following areas; the concept of outsourcing, the different approaches to outsourcing, strategic outsourcing options, the different factors that affect the outsourcing decisions, the effect of outsourcing on business performance as well as the benefits and the problems associated with outsourcing strategy. The study will look at a number of papers and research projects conducted by a varying number of strategic management experts, researchers and academicians. Experts and academicians in the field of strategic management have adapted varying definitions to suit the research they are doing.

### **2.2 The Concept of Outsourcing**

Academicians and researchers have over the years come up with different definitions for the outsourcing concept. Gilley and Rasheed (2000) argue that outsourcing is simply a purchasing decision; no firm is completely self-sufficient, and all firms purchase some inputs from outside. In contrast, (Lei and Hitt,1995) have defined outsourcing as the 'reliance on external sources for manufacturing components and other value-adding activities'. Perry (1997) defined outsourcing in terms of a firm's employees stating that "another firm's employees carrying out tasks previously performed by one's own employees".

Other researchers chose to focus on the competencies of an organization when defining outsourcing. For instance, (Sharpe, 1997) defined outsourcing as turning over to a supplier those activities that are outside the organizations chosen core competencies. Whatever the definition one chooses to go with, outsourcing decisions should be treated in a more strategic and holistic manner.

According to (Deavers, 1997), outsourcing may be used to describe many different kinds of corporate actions; all sub-contracting relationships between firms, all foreign production by firms, hiring of workers in non – traditional jobs such as contract workers, temporary and part-time workers. Outsourcing is increasingly being employed to achieve performance improvements across the entire business. Leading organizations have been adopting more sophisticated outsourcing strategies and have been outsourcing core processes such as design, engineering, manufacturing, and marketing.

These organizations have benefitted greatly from accessing the specialist capabilities of suppliers in a range of business processes (Aron and Singh, 2005). Many specialist suppliers can develop a greater depth of knowledge, invest more in systems and processes, and achieve efficiencies through economies of scale and experience. Leveraging the capabilities of more capable suppliers allows organizations to outsource more critical business processes and enhance their own internal core capabilities that drive competitive advantage.

According to (Barthelemy and Geyer, 2004), published research has mainly focused on two key areas when it comes to outsourcing; what determines a company's decision to outsource, and the management of outsourcing contracts and outsourcing partners. Research indicates that there are diverse reasons as to why companies make the decision to outsource. While these reasons vary based on the situation and the company, they include but are not limited to;

Cost reduction and efficiency improvements: Cost reduction is a frequently reported reasons for outsourcing (McFarlan and Nolan 1995; Baldwin et al. 2001). Smith and McKeen (2004) describe what they call “outsourcing for operational efficiency”. This involves outsourcing some of the more ‘utility’ functions of IT, with a clear objective of saving money through reductions in staff and other resources (Lacity and Hirschheim 1993).

Improvements in business performance: Many firms look to the market place especially when it comes to information technology where rapid changes occur almost on a daily basis for state-of-the-art skills that are not currently available within the organization (DiRomualdo and Gurbaxani 1998). The purpose, DiRomualdo and Gurbaxani (1998) argue, is to use these skills to improve critical areas of the business. “Outsourcing for strategic impact”, is the scenario where non business critical functions are outsourced allowing the company to focus on its core business (Smith and McKeen 2004).

Commercial exploitation of outsourcing provider capability: Smith and McKeen (2004) use the phrase “outsourcing for tactical support” to describe this scenario. The aim here is to increase the availability and numbers of capacity to the organization to provide greater flexibility. The outsourcing organization keeps the mature systems running while the company embarks on the development of new systems using existing staff. It can also provide the organization with an opportunity to access new technology (Baldwin et al. 2001).

Divest the part of the organization: Outsourcing is sometimes adopted in order to get rid of a portion of the organization that is performing poorly or is not functioning at full capacity. Companies cannot manage a particular function and look to another organization to manage that function. McFarlan and Nolan (1995) describe this as “elimination of an internal irritant”, often due to tensions between management and the end users. This is more applicable in the outsourcing of IT services. This includes risk mitigation where companies, for example, outsource potential risks associated with complex technology (Baldwin et al. 2001).

Staying ahead of the competition: This can be described as the ‘bandwagon effect’, companies will employ tactics that their competitors have employed just to make sure that they stay ahead of the competition (Lacity and Hirschheim 1993). This is often combined with pressure from suppliers and other stakeholders (McFarlan and Nolan 1995).

## 2.3 Approaches to Outsourcing

Organizations that are considering outsourcing as a strategic option are faced with the major challenge of identifying which of their activities are core to the success and which activities are non-core. Quinn and Hilmer (1994) proposed three key factors to consider regarding an activity considered for outsourcing. The first factor relates to the potential for competitive advantage that the activity gives to the organization. The second factor relates to analysis of the extent of vulnerability that would face the organization as a result of outsourcing a certain activity.

These two factors are used to form a matrix where both dimensions are measured as either being low, medium or high and are then used to identify an ideal strategy as represented in figure 1 below. The third factor which is the decisive factor includes the identification of the control factors that are needed to reduce the risk involved in outsourcing an activity (Quinn, J.B., Hilmer, F.G.1994).

Similarly, Venkatesan (1992) offered principles that may be used to assess the outsourcing decision. His suggestion was that organizations should outsource those components where the suppliers have distinct comparative advantage and concentrate on components that they are distinctly good at producing. He also came up with a simplified model for the strategic outsourcing process. This framework would then provide a guide for the organization for which activities to outsource and which activities should be performed internally.

This research has led to the development of process models for outsourcing or “make-or-buy” decisions. McIvor (2000) suggested four stages of the outsourcing decision namely; definition of the core activities of the business, evaluation of the various value chain activities, cost – benefit analysis of the activities and lastly conduct a relationship analysis of all the organization’s activities. Canez et al., (2000) took a different approach when analyzing the outsourcing decision. They started their framework by focusing on the external environment, which they claimed triggered make-or-buy decisions within an organization.

<b>Potential for Competitive Advantage</b>	High	Strategic Control needed (Produce Internally)	
			Moderate control needed (Special venture or contract arrangement)
	Low		Low Control Needed (Buy off the shelf)
		High	Low
		<b>Degree of Strategic Vulnerability</b>	

Source: Quinn, J.B., Hilmer, F.G. (1994), *Strategic Outsourcing*, Sloan Management review, 34(3) 48.

Figure 1: Strategic Outsourcing Options



All the frameworks that have been offered up to this point see the outsourcing concept as a deliberate decision that takes place within an organization. Many theorists in this areas agree that outsourcing is mainly concentrated on peripheral activities, for instance services such as security, catering and cleaning (McIvor, 2000), logistics (Rabinovich et al.,1999) and facilities management (Van Weele, 2002). The fundamental decision of outsourcing is whether or not to outsource a business process or function.

In modern organizations, the outsourcing decision has become more complex because many processes are integrated and therefore separating them has posed a challenge because it is difficult to hive off and outsource a single application. A business process is considered to be strategic if it gives unique competitive advantage. The organization may therefore not want to share sensitive knowledge with suppliers about a specific process in which case the logical strategy for such a process is insourcing

## **2.4 Factors Influencing the Outsourcing Decision**

According to (Kay, 1993; Hofer and Schendel, 1978), the outsourcing decision should focus on the consequences on the competitive advantage of the organization, with the competitive advantage being based upon matching of capability to the conditions in the competitive environment.

Grant (1991) stated that the resources and capabilities are seen as the foundation of an organization's long term strategy and profit. The activities of a business that are considered to be core form an essential part of its supply chain which may be useful in reducing waste and variability within the value chain, improve flexibility as well as learning. Lonsdale (1999) warns of lack of awareness of the dangers of outsourcing into a limited supply market, where few firms are capable of providing a particular good or service to the required standard or volume or in the right geographical area, which opens the organizations up to the possibility of suppliers taking advantage. Strategic decisions therefore need to be evaluated against a long-term perspective.

An organization's sourcing strategy needs to be consistent with the competitive conditions and the development of competitive advantage (Quinn and Hilmer, 1994). To assess the short-term implications of the sourcing strategy, an organization may opt to use Porter's Model of industry analysis. A shift either way in the competitive environment may bring into sharp focus the relevance of capabilities and assets that have in the past been seen as core to the business. Process and market innovation and experience, rapid changes in IT, diffusion of propriety knowledge may cause an organization to relook at its value chain to assess what activities are critical to sustainability of the business.

For instance, online booking systems for airlines has proved to be a critical resource in maximizing the revenue gained from each flight as it reduced the number of man hours and process that would be otherwise involved in physically booking flights for clients. This is an outsourcing strategy that has been employed by a number of organizations for instance airlines, banks and other service oriented organizations to assist them to streamline their operations and to enhance customer satisfaction.

In conclusion, it is safe to say that the outsourcing decision cannot be made in isolation; it requires recognition of a wide range of contextual factors and the implications on the longer term development of the organization. The various frameworks that have been discussed have provided a structure for considering these factors while maintaining focus on the central concern that is gaining competitive advantage. The decision to outsource an activity must be assessed against the implications on competitive advantage while referring both to the short-term conditions and the longer term implications on the market as well as the environment (Hines, P., Rich, N. 1998)

## **2.5 Effect of Outsourcing on business performance**

An outsourcing strategy can have both positive and negative impacts on a business performance. The outcome ultimately depends on the way the company goes about the outsourcing strategy and the level of support the strategy receives from top-level management. Furthermore, the phase the company is at in the outsourcing project can have a direct impact on business performance.

For example, in the “honeymoon period” (that is just before or just after signing the contract) the benefits reported by organization are not actual but projected benefits, which could lead the company into many problems if they do not consider this fact (Barthelemy, 2004). If the outsourcing decision is successful, outsourcing can help improve business performance by enabling a company to focus on its core competency and getting back to what it does best.

By transferring non-core activities to a specialized vendor, the organization may experience an overall reduction of its operational costs, and ultimately improve the performance of the outsourced activity (Barthèlemy, 2003). In addition, as the function or service is outsourced to a “best in class” provider, there may be greater flexibility in the systems. Under certain conditions, it can also save the company money, and reduce risk. As a result, companies can become more profitable and more competitive.

Kletzer (2004) goes as far as saying outsourcing brings real, solid benefits to the economy. Savings have been cited from between twenty and fifty percent per outsourced job (Clinton, H.R. 2004; Hoffman, T. 2003). Furthermore, the Outsourcing organizations highlighted the fact that companies can gain a nine percent cost saving, and a fifteen percent increase in capacity and quality, on average, through outsourcing.

This is compounded by Barthelemy (2003) where he found that companies that had outsourced were able to double their operational incomes before tax while the revenues remained stable. It can also help outsourcers to obtain technical capabilities that it would not have been able to provide on its own (Kletzer, 2004) and thus help firms take advantage of the best outside vendors and restructure estranged departments that are reluctant to change (Barthelemy, 2004).

On the other hand, if the outsourcing strategy does not perform as expected, the costs of the project could spiral out of control and if the company terminates the project they could end up in severe debt with nothing to show for it. They could lose control of the service or function they outsourced leaving them to just take what the outsourcer gives them. Torres, Vu, and Marcos (2003) found some disadvantages to outsourcing in Southeast Asia, China, India, and Russia. For example, wages in some parts have risen by up to fifteen percent and these increases have led to decreases in wages in other sectors of the economy.

In addition, the high growth in outsourcing has created a shortage of highly skilled workers – predicted to be a 20% excess demand over available labour supply by 2008. This could lead to companies having to pull out of these parts and bring it back in house as they could not sustain the increasing costs, thus having a negative effect on the company's business performance.

## 2.6 The Benefits and Problems of Outsourcing

Unlike most governmental entities, public colleges and universities operate in a highly competitive environment, where market forces play a significant role in institution business practices and decisions. Higher education consumers — students and parents — can and will go elsewhere if they are dissatisfied with programs that are on offer or their cost.

Interviews and a literature review indicate that this competitive environment is likely to continue to evolve as budget constraints, technological forces, and demographic pressures provide the catalyst for continuing changes within higher education. An outgrowth of increased competition and budgetary pressures is a renewed emphasis on postsecondary education efficiency and performance. In an effort to improve efficiencies and enhance accountability, more institutions are outsourcing operating, auxiliary, and even academic services.

Outsourcing, when properly structured and monitored, can have many benefits, such as reducing costs and according to (Ford et al., 1993) cost reduction has been the predominant motive for outsourcing, improving service quality, and increasing efficiency and innovation. Outsourcing, however, also presents certain risks, and maintaining or improving service quality is not assured. Proper contract procedures and oversight are essential to ensure that resources are appropriately used and services are rendered satisfactorily.

## 2.6.1 Benefits of outsourcing

Proponents of outsourcing suggest that organizations are forced to be more responsive to the needs of students and employers, and outsourcing can generate efficiencies that can enhance the organization's goals. Further, advocates argue that the private sector provides services more efficiently and at lower cost than the public sector. Proponents point out that outsourcing can reduce an institution's labor and benefits costs, provide a single point of accountability, and provide predictable costs, allowing an institution to use the savings on its core educational operations — instruction and research. Other identifiable benefits associated with outsourcing include:

Flexibility – outsourcing decision provides an organization with the opportunity to avoid the constraints in production capacity that is associated with producing their own products. This is more so in situation where product demand is seasonal or cyclical and therefore, the losses that are associated with in-house production may be avoided. Flexibility may also be realized through the ability of the organization to change its product range in response to prevailing market conditions. Added expertise: Contracts may be structured so that vendors bear the cost of acquiring new equipment and technology.

In the same way, the institution can bring new levels of expertise onto campus. An organization can, in fact, gain access to higher-level capabilities in a variety of domains without having to hire personnel. Added expertise may also translate to superior quality products. According to (Quinn et al., 1990), outsourcing can provide a company with

“best in the world” quality for particular components or activities. Economies of scale and scope: Organizations can take advantage of economies of scale achieved by vendors. Specifically, private vendors specialize in a particular service area, allowing them to purchase goods or services at a lower cost which for the organization that is outsourcing translates to overall reduction of costs of its factors of production. The use of outsourcing may also facilitate the development of scope through product diversification (Reve, 1990). This may be achieved indirectly through reduced functional complexity and greater focus on core competencies facilitating the development of product/market complexity.

Risk avoidance: Risks, such as liability issues, can be transferred to the service provider, allowing the contracting agency to share or avoid risks associated with providing a service. Variable Staffing: Contracting for seasonal and part time work, can often be done on an as-needed basis. Using variable service contracts allows an organization to pay only for the services needed without incurring the overhead costs associated with hiring permanent staff.

### **2.6.2 The problems of outsourcing**

Jennings (1997) pointed out that there are a myriad of outsourcing problems that many firms have found to be to their loss and disadvantage. Outsourcing critics claim that private business practices are contrary to the established traditions of shared governance and to the academic profession, which require substantial professional autonomy, peer rather than hierarchical authority, and a less materialistic culture.



Further, critics of outsourcing point out the human resources consequences, including loss of jobs or decreased loyalty and the morale of employees. Other identified negatives include: Poor contract management: outsourcing agreements may fail to achieve intended benefits, not because the goals were ill conceived but because of poor planning and execution. Organizations often lack the expertise to properly structure or monitor contracts. For example, an organization may lack the expertise to ensure that a food service vendor is complying with the nutritional requirements specified by the contract.

Lower service quality: the quality of service given by an outsourcing company is measured through the Service Level Agreement (SLA) in the outsourcing contract. In contracts that are poorly defined, it is not uncommon to find that the SLA is ill defined or not defined at all. Even in instances where the SLA is defined, it may not be at the levels that were previously enjoyed. The low quality may also be as a result of the lower prices enjoyed by the outsourcing company (Jennings, 1997). Another problem that may occur is that vendors may not understand the culture and mission of an organization, resulting in a different or lower standard of service quality offered to its customers.

Loss of in-house expertise: The ability of the organization to provide services in the future is diminished, as in-house expertise is lost. The frequent absence of formal guidelines can allow the incremental loss of key competence to take place and hence undermine capability leading to a loss of critical skills, cross function working and creation of the “hollow corporation” (Bettis et al.,1992)

Qualification of Outsourcing companies – competent staff that used to man the outsourced processes may be replaced by less competent/qualified people. This happens especially in instances where the service providers want to minimize their costs which is the major reason why companies outsource their activities. In this instance, it is not uncommon to find that the business transformation that was promised by the outsourcing company will fail to materialize as a result of vendors overstating their capabilities among other factors.

Other problems that may arise include language barriers especially when the outsourcing activity is contracted to a company that is based overseas where the language and culture is different, security issues as the outsourcing company is often liable for actions of staff and the company that is producing its products, legal and compliance issues may also occur for instance when NIKE was accused of using child labour to produce its products even though they had outsourced the manufacturing component to a third party.

The link from outsourcing to performance is less well developed empirically (Gilley and Rasheed, 2000; Masten, 1993). Recent normative literature (Domberger, 1998; Quinn, 1999) and managerial practice, where outsourcing has been one of the buzzwords (Porter, 1997), suggest that outsourcing is one of the key sources for increasing a firm's performance. Various arguments have been provided for such a positive relationship. Because outsourcing makes a firm more nimble, it allows firms to increasingly focus on its core activities (Domberger, 1998; Quinn, 1999).

Outsourcing also lowers production costs because specialized suppliers are used (Hendry, 1995; Kotabe, 1998) and it increases a firm's strategic flexibility to deal with technological or volume fluctuations (Balakrishnan and Wernerfelt, 1986; Semlinger, 1993). Outsourcing helps to avoid the costs associated with bureaucracy typically associated with production inside the firm (D'Aveni and Ravenscraft, 1994; Jensen and Meckling, 1976). Finally outsourcing opens up the possibility of obtaining rents from relations with suppliers.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research design and methodology of the study. It gives a description of the way the study was designed, the techniques and methods that were used in data collection and the data analysis procedure that was used.

### **3.2 Research Design**

The study adopted case study design to assess the effects of outsourcing strategy on performance at the Kenya Institute of Management. A case study is an in-depth investigation of an individual, institution or phenomenon and is appropriate for individual researcher because it gives them an opportunity to conduct a study in order to address one particular aspect of the problem.

This case study research goes into the detailed examination of the outsourcing strategy and performance at the Kenya Institute of Management. The researcher chose a case study approach because there are a number of different factors including financial and non – financial considerations to be taken into account and these could not be studied effectively except as they interact and function within the organization itself. By analysis of data collected from a sample of selected respondents, the researcher hoped to establish the extent to which outsourcing and indeed other strategies that an organization may adopt are effective in enhancing the overall organizational performance.

### **3.3 Data Collection**

This study involved the use of primary data. The primary data was collected from senior managers of the Kenya Institute of Management who are charged with overseeing key departments of the Institute a majority of which have outsourced some portion of their activities. The method of data collection was through in depth interviews using interview guides. Representation of all key departments will be assured as the managers holding those offices are responsible for managing the various activities/processes that have been outsourced. The interviews included the following; Chief Executive Officer, Head, Finance & Administration, Head, Human Capital, Head, Management Information systems, Manager, ICT, Procurement Manager, and Circulation Officer.

An interview guide consisting of four (4) parts was used in collection of the primary data. Part 1 relates to job information part 2 is in reference to the overall application of outsourcing strategy in the organization part 3 relates to the impact of outsourcing strategy on the financial, customer focus and internal processes at the Institute and finally part 4 relates to the success and challenges of implementation of outsourcing strategy.

### **3.4 Data Analysis**

A case study research is largely qualitative in nature and therefore the researcher used content analysis to analyze the data collected from this study. Content analysis is used to analyze data (text) to determine the frequency of specific words or ideas in the analysis of the raw data. The results generated by this method of analysis allows the researcher to identify and quantify ideas, concepts, trends and associated patterns that occur within a specific context over time.

The data collected from each of the selected respondents was carefully scrutinized for relevance, strategic impact and level of significance. For a more meaningful analysis, the data was broken down into different clusters of strategic responses and then analyzed after arranging into logical groups. This allowed for the study objectives to be described logically.

## **CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presents data findings from the field, its analysis and the discussions of the said findings. The data was gathered by use of an interview guide disseminated to eight (8) respondents and the analysis of the findings was by way of content analysis. The study sought to determine the influence of outsourcing strategy on the level of performance at the Kenya Institute of Management. The interview guide used largely relied on qualitative data.

### **4.2 Profile of Respondents**

This section presents general information about the respondents that participated in the study. In an effort to ascertain the competence and conversance of respondents to the operations of Kenya Institute of Management, information was sought about the respondents' age, functional department and their years of service at KIM. The respondents were drawn from a number of departments within the organization including Human Resources, ICT, Procurement, Publishing and creative service, Finance and Administration.

The data collected indicates that 50% of all the respondents had work experience of between two and five years, 37.5% had work experience of between six and ten years and 12.5% had work experience of more than ten years. A study of the data collected indicates that 62.5% percent of respondents are aged between 26-35 years, 25% are aged between 36 – 45 years and 12.5% are aged between 18 – 25 years.

KIM outsources a number of its internal processes including, payroll, IT services, cleaning services, security services among others. The payroll services have been outsourced to ComTech Limited while the IT services are doubly managed by Safaricom Kenya Limited and Access Kenya. Similarly security, mail delivery and cleaning services have been outsourced to G4S and Parapet Limited respectively.

### **4.3 Factors influencing the Outsourcing decision**

This section presents the findings of the factors that largely influenced the outsourcing decision within the organization. The researcher sought to find out from the respondents why the organization choose to outsource some activities and not others as well as the factors that played a key role in influencing these choices. An analysis of the data collected from the respondents reveals that outsourcing is largely viewed as a compromise between vertical integration and a reliance on market mechanisms. Reliance to market mechanisms refers to costs associated with vendor identification and choice as well as the risks inherent in choosing a particular vendor.

The respondents identified a number of factors that are of key consideration when deciding whether to outsource an activity. Respondents largely agreed that cost reduction is one of the biggest factors that the organization considers when making an outsourcing decision.



The organization seeks to establish whether it is cheaper for them to outsource the activity or to include as part of its internal operations. The main aim here is to gain access and by extension competitive advantage through economies of scale or expertise. The organization also pursues the outsourcing decision as a way to increase focus within the organization that is outsource those activities that are not core to the business and focus on their core competencies.

Another factor that was identified as influencing the outsourcing decision is a move towards a change of existing financial and cost structures. The organization has been continually seeking to change its costs structure from largely fixed costs to variable costs. This is a good way to manage costs within the organization as variable costs are a function of the level of activity at any given time which is something that the players within the organization are able to control.

Respondents also identify the need to produce better quality services for their customers are having influence over the outsourcing decision. The need to meet uneven demand or to gain access to resources that are not readily available internally was cited as another factor of consideration. In response to the question of what factors were not considered during the outsourcing decision but that now have great impact on the outsourcing project; respondents identified risk as one of the most important factors that should have been considered before engaging with vendors in a contractual agreement.

One of the biggest risk factors that were identified is dependence on the supplier. Respondents indicate that a better analysis should have been done to ascertain whether a dependence on the supplier would not be imminent. It was established that ample consideration was not given to the fact that by outsourcing said activity, the organization loses the ability to nurture those skills internally, and hence they are forced to depend on the supplier for such activities.

Other risks that were identified include the potential loss of intellectual property, issues of confidentiality as the organization is forced to share some of its information e.g. financials which are sensitive to the organization, loss of distinctive competencies as outsourcing may atrophy in-house skills. Loss of flexibility was also identified as a potential risk of outsourcing. For instance, a three year contract offered to a supplier of a certain activity/service may reduce the ability of the organization to adjust to changes in the environment or to exploit new technology. Project risk is also imminent as the vendor may deliver substandard products as a result of poor methodology, negotiation and monitoring.

Outsourcing in most instances leads to declaring of some jobs or processes as being redundant. Respondents concurred that the long – term effects of this action was not adequately considered when making the outsourcing decision. The turnover rate was noted as having increased after a redundancy exercise was undertaken as the staff who are left behind have lost trust in the management of the organization, have low morale and have lost their perceived sense of job security.

The human cost of outsourcing is often overlooked by management when making the outsourcing decision. While the cost implication cannot be felt immediately, it is a cost that managers cannot afford to completely ignore. This has a cost implication to the organization if not carefully handled. These fundamental considerations are manifest in many different motivations for outsourcing.

#### **4.4 Outsourcing and Performance**

This study set out to establish whether or not outsourcing strategy had an effect on performance of the Kenya Institute of Management. Generally, respondents were in agreement that positive results were felt in the company's performance after the outsourcing decision was undertaken. Some of the benefits that respondents attributed to outsourcing of activities at the company included increased productivity among the staff members as they was more specialization of duties once rone core activities were outsourced, increased firm profitability was also cited as an accrued benefit. The respondents attributed this to focus on what the company does best thereby creating competitive advantage.

Overtime budget reductions which also translated to lower operating costs was also cited as a benefit of outsourcing. With none core activities being outsourced to specialized companies, staff members were able to focus on their core activities during the allocated working hours and therefore instances where claims of overtime were made greatly reduced. The study also established that higher quality levels were experienced by the organization as a result of outsourcing.

The respondents indicated that with outsourcing, cost estimation was enhanced. The contractual agreements entered into with third party agents offered a fixed charge per unit creating an element of predictability. Standard costing therefore was made easier with the organization only having to include overhead costs to the per unit fixed charged quoted by the suppliers.

In some instances, the study established that outsourcing of services had little effect on the performance of the organization. Respondents cited the outsourcing of services such as cleaning, security and payroll services as having very little effect on the organization's bottom line. That said, the study established that a given level of outsourcing led to more than commensurate influence on the organization's level of performance.

## 4.5 Successes and Challenges of implementing outsourcing strategy

The respondents generally agreed that apart from the cost savings, outsourcing is seen as a strategic move that can allow the business to gain a competitive advantage. It has opened up opportunities for the organization to utilize skill sets and expertise that they normally would not be able to access without large investments. The study revealed that defining specific goals that. One should also be aware of the risks that are involved in outsourcing. That said, respondents identified the following benefits as being attributed to the outsourcing decision;

Lower costs are perhaps the prime benefit of outsourcing, it has been for a long time been the primary incentive for the outsourcing decision. The idea here is that work can get done at a fraction of the cost that you would have to spent to do the work internally, while getting better quality as well. Skilled expertise was cited by the respondents as one of the other benefits of outsourcing. Finding skilled resources is one of the biggest challenges faced by companies today, not to mention the investment required to train employees and the subsequent infrastructural requirements, which can rapidly drain funds of the organization. Outsourcing allows the organization to be free of the hassle of providing access to skilled resources at lower costs, with the additional benefit of not having the burden of managing them directly. .

Focus on core competency for the organization is one of the major reasons why KIM ventured into outsourcing some of its services. As the company grew in size and capital, administrative functions also grow. Managing back-office operations and administrative functions takes the time and energy out of any organization. Outsourcing has provided this organization with the freedom of not having to manage non-core functions, and in so doing puts the focus back on its core competencies i.e that which the organization does best..

The study revealed that increased productivity and efficiency are other success factors that can be attributed to the outsourcing decision. Outsourcing not only brings cost advantages but can also improve the efficiency of business operations. If business goals are properly aligned with the deliverables in outsourcing, productivity and efficiency will most likely increase. If the vendors that the organization chooses to contract have the right expertise and experience, they go a long way in helping to streamline business processes and contribute to the bottom-line.

Outsourcing has also helped the organization to spread the risks that are associated with doing business. Respondents cited the example where they have contracted G4S to handle the distribution of mail, stationery, furniture and any other items across the 21 branches of the organization across Kenya. This distribution of risk gives the company room to not only focus on its core competency but they also spread the risk of loss, damage or liability that may occur in the course of transporting the items to the different branches.

Respondents also cited improved customer service as one of the benefits of outsourcing. With vendors producing higher quality goods and services, customer satisfaction and retention subsequently increases. Customer service is paramount to any organization. Through outsourcing the organization is able to service your customers faster, provide better quality and decrease turnaround time. Outsourcing has also benefited the internal customers of KIM.

Through outsourcing the organization is able to identify the skills necessary to run a particular business process, the business is therefore much more flexible in investing in key resources. Instead of worrying about hiring people for non-core operations, focus is placed on getting resources to grow the core competencies of the organization. In instances where the organization requires to undertake a project but lacks the capacity internally to handle said project, outsourcing provides the organization with the option of getting the job done without having to recruit staff to do the job.

Operational control was also cited by respondents as an accrued benefit of the outsourcing process. The organization may outsource operations whose costs are affecting the bottom line. Departments that may have evolved over time into uncontrolled and poorly managed areas are prime motivators for outsourcing. In addition, an outsourcing company can bring better management skills to the company than what would otherwise be unavailable.

Staffing flexibility allows operations that are seasonal or cyclical to bring in the additional resources when they are actually needed and release them when the high demand subsides consequently, there is no wastage or idle capacity in the other periods when demand for products or services is low. Studies have shown that on average, labour costs in any organization account for about 25% of overall costs. At KIM this labour costs account for 28% of the total costs. This figure is staggering and therefore, being able to acquire capacity only when it is necessary is a flexibility that the respondents agree with.

The study also showed that in certain periods where employee turnover is high, there is uncertainty and inconsistency in operations. Outsourcing has provided a level of continuity to the company while reducing the risk that a substandard level of operation would bring to the organization. Outsourcing has brought tremendous benefits to the organization, but it also poses some challenges that cannot be easily brushed off. Respondents identified a number of challenges that the organization has faced in implementing outsourcing strategy. The implementation process is the most difficult step in the outsourcing process as in all other strategies.

It is at this critical stage where required planning should already be defined in order to initiate the change. This includes all contract negotiations and implementation preparations by the client and service provider, and the work moves out of the planning stage and begins to impact multiple client leaders, users and other stakeholders. It is at this stage where the problems that are associated with outsourcing begin to surface.



Respondents cited the lack of clear understanding from both parties of the post-contract processes and decision rights. Simply put, clients and service providers are not operationally prepared to work together after contract signing. The results are that services simply aren't performed, implementation activities get stalled, client stakeholders and service provider staff are both frustrated, and the entire schedule for achieving expected business benefits is delayed. Having processes and decision rights rated as the biggest problem may seem surprising given the possibility for high emotion and behavioral change that comes with outsourcing. However, it is this lack of definition and understanding that is a significant root cause of many other issues. The problem occurs if new processes and decision rights have not been well-designed or socialized.

To address this challenge, both parties have to ensure that all about financial, contractual, and service delivery processes and decision rights are answered and communicated to appropriate stakeholders in the client and service provider organizations. The outsourcing contract is not intended to be nor should it be viewed as an operational manual; therefore additional work is required to design and communicate changes.

Another significant problem that cited by respondents is the lack of buy-in from senior functional managers who are recipients of the outsourcing services. This can result in active or passive resistance to the entire outsourcing model; create the desire for "special treatment" or opt-out from the outsourcing services, and results in business case deterioration.

This has in most instances occurred in cases where the managers were not actively involved in the outsourcing process and they therefore do not feel the obligation to associate which arise as a result of this process. This lack of participation has been seen to have two detrimental impacts; one, the functional manager is in most cases ill equipped and unprepared for the inevitable changes that come with outsourcing and two, it is likely that the needs of that functional team will not be fully met as the evaluation and negotiation teams may not fully represent or understand unique services for a particular unit in the organization.

Other challenges that respondents cited includes a varying number of risks including the risk of atrophy, the risk of exposing confidential data for the organization to third parties, the risk of the knowledge gained from outsourcing being lost and over – dependency on the service providers. There is also the risk of synchronizing the deliverables in cases where the organization has chosen the wrong vendor for outsourcing; some of the common problem areas include stretched delivery time frames, sub-standard quality output and inappropriate categorization of responsibilities. At times it is easier to regulate these factors within the organization rather than with an outsourced partner.

Hidden costs are another challenge that the organization has faced in implementing its outsourcing strategy. Although the primary motive of the outsourcing decision is to reduce on the overall costs of the organization, respondents cited instances where times the hidden costs involved in signing a contract have been more than they had bargained for. Loss of Key Talent and/or Poor Knowledge Transfer is another challenge brought about by the outsourcing decision.

Outsourcing creates uncertainty for existing employees and contractors who provide services to the client organization. The uncertainty can cause this staff to look elsewhere for employment and leave either before or during the outsourcing implementation, causing a need to either backfill the resource or reduce the amount of work performed by the organization. In addition, some of the client staff is temporarily engaged for knowledge transfer to the service provider during the implementation. If the staff is not properly motivated or if the service provider does not do a good job with knowledge transfer, this can cause decreased efficiency in service delivery and possibly introduce operational risk.

Effectively managing these risks associated with outsourcing has required the organization to take a number of steps to minimize such risks. Risk analysis begins by attempting to understand the risk profile, or specific risks associated with outsourcing this process.

## 4.6 Discussion

The objective of this study was to establish the effect of outsourcing strategy on performance at the Kenya Institute of Management. Primary data was collected using an interview guide with a total of eight respondents being targeted. The data collected was then analyzed by way of content analysis.

The study revealed that KIM has applied outsourcing strategy in most of its functional departments but in varying proportions. The organization has used outsourcing as a corporate strategy through which it aims to gain competitive advantage over its competitors. The strategies that an organization pursues have a major impact on its performance relative to its peers (Hill and Jones, 2001).

The study divulges the critical stages of the outsourcing decision. Identifying the activities/processes that are core and non-core to the business is the most important and most challenging stage of this process. This decision was largely influenced by customer needs and the need to stay competitive, both central to KIM business strategy. A major part of analysis in the outsourcing framework involved assessing the relative performance capability of a process in relation to external service providers. Performance management was primarily undertaken at the strategic level, with insufficient emphasis on the process level.

The criteria used to evaluate sourcing decisions are multidimensional and intangible but there is a need for the management of the organization to consider other intangible factors such as the need to free up managerial time from routine tasks and the possible dependence on the vendor. The decision to outsource needs to focus on the consequences for competitive advantage with competitive advantage in this instance being based on matching of capability to conditions in the environment (Quinn and Hilmer, 1994).

This study of KIM reveals that the decision to outsource is based on cost cutting, access to specialized skills, need to focus on the core competencies of the organization, need to enhance service delivery, enhanced customer satisfaction and to gain competitive edge. These varying reasons as revealed by the study support all three of the strategic performance intents as outlined by (Di Romualdo and Gurbaxani, 1998). Specifically these include strategic improvement, strategic business impact and strategic commercial exploitation for the firm.

The outsourcing decision is not without its challenges as revealed by the study. Risk is a big aspect of the outsourcing framework that cannot be ignored. The different types of risks that were identified by the respondents were strategic risk, operational risk, risk of atrophy and intrinsic risks of location. The study revealed that the organization took little action to mitigate against the risks that are involved in the outsourcing decision which has opened the firm to many vulnerabilities.

A key aspect of effective outsourcing is to develop performance measures for processes before outsourcing. More specifically, where organizations outsource their processes without developing performance measures, they cannot know whether service providers are executing processes better or worse than internal functions.

Process analysis is time consuming and difficult, but is an important element of outsourcing in several areas: analyzing and determining causes of poor performance, understanding internal and external process interdependencies, understanding and determining process requirements, determining performance measures for the contract and service level agreements (SLAs), determining required service provider capabilities, clearly communicating requirements to the service provider and selecting the most appropriate service provider relationship. Jennings (1997) in his study found that the frequent absence of formal policy guidelines can allow the incremental loss of key competences to take place and hence undermine capability leading to loss of critical skills, cross function working and creation of a hollow corporation.

In conclusion, the researcher finds that there is a direct relationship between the degree of outsourcing and its impact on the level of performance. All respondents agreed that generally, the outsourcing decision has improved the bottom line of the business. The researcher however recommends that for a better realization of results, the organization needs to integrate performance measurement considerations into the outsourcing process.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of the key findings from the study, conclusions that were drawn from the study, recommendations made there-to, limitations of the study and suggestions for further research as propagated by the findings of the study. It also outlines the implications of the study for policy and practice. The conclusions and recommendations made are in quest of fulfilling the objective of this study was to determine the effect of outsourcing strategy on performance at the Kenya Institute of Management. By way of realizing this objective, the researcher also sought to establish the challenges that face the outsourcing decision and how the organization has handled these challenges.

## 5.2 Summary of Findings

The findings of the study reveal that a key aspect of effective outsourcing is to develop performance measures for processes before outsourcing. More specifically, where organizations outsource their processes without developing performance measures, they are not able to tell whether service providers are delivering on the agreed contract or if they are executing outsourcing processes better or worse than they would have been executed internally.

Another key factor that was identified from the study was the significance of process analysis when undertaking the outsourcing decision. While process analysis is time consuming and difficult, but is an important element of outsourcing in several areas: analyzing and determining causes of poor performance, understanding internal and external process interdependencies, understanding and determining process requirements, determining performance measures for the contract and service level agreements (SLAs), determining required service provider capabilities, clearly communicating requirements to the service provider and selecting the most appropriate service provider relationship.

Jennings (1997) in his study found that the frequent absence of formal policy guidelines can allow the incremental loss of key competences to take place and hence undermine capability leading to loss of critical skills, cross function working and creation of a hollow corporation.

### **5.3 Conclusion**

In conclusion, the researcher finds that there is a direct relationship between the degree of outsourcing and its impact on the level of performance. All respondents agreed that generally, the outsourcing decision has improved the bottom line of the business. The researcher however recommends that for a better realization of results, the organization needs to integrate performance measurement considerations into the outsourcing process.



## 5.4 Recommendations for Policy and Practice

Outsourcing remains a sensitive subject for strategic decision makers. This study has examined the outsourcing strategy and its effect on performance at the Kenya Institute of Management. It is imperative to state that the outsourcing strategy will only be successful if it will be linked to the organization's overall business strategy. An in depth understanding of current performance of the organization and the degree to which sustainable superior performance can be maintained allows the outsourcing process to be linked with the overall business strategy.

The relative importance of organizational processes cannot be overlooked when making the outsourcing decision. Organizations must put in place performance measurement systems in place in order to be able to evaluate and manage outsourcing strategy effectively. It is virtually impossible for the organization to measure how well service providers are delivering on contractual agreements if an organization outsources its business processes without developing effective performance measures. The interrelationships and interdependencies between business processes prior to outsourcing must be clearly understood. Failure to do this makes effective assessment of suppliers impossible.

An analysis of the organization's internal processes will aid decision makers define clear boundaries between those processes that should be carried out internally and those that should be outsourced. Successful performance measurement of supplier performance depends on a clear understanding of the nature of the processes before they are outsourced and defining clear desirable results from the supplier. Care should be taken when developing the service level agreement (SLA) so that it can be used as a practical day to day tool to measure performance. The SLA should be flexible enough to enable the updating of performance indicators between the client and service provider.

## 5.5 Limitations of the Study

This being a case study, one limitation of this research has been to apply the outsourcing framework to a single organization. Further research is required to test the validity of the study in a number of settings so that additional insights into performance management and outsourcing might be generated. For a more conclusive finding, studies need to be done in organisations with more mature outsourcing strategies. This is because data that was collected from this company may differ from that of other companies in the same industry. This is largely because companies adopt different strategies in their operation with an aim of differentiating themselves from the competition.

The study would have been more comprehensive if the researcher was able to compare data pre – outsourcing and post- outsourcing. This would have given the researcher a backdrop against which it would have been possible to measure the changes in performance using quantitative data analysis tools. The focus of this research was on quantitative analysis using content from the respondents which in most instances gives a subjective view from the respondents and the researcher.

The duration period through which the study was to be done and completed was limited hence exhaustive research could not be carried out on strategic responses to the environment. The study however, minimized the effect of this by conducting in depth interviews with the respondents within the allocated short period to ensure that sufficient data was collected for analysis.

## 5.6 Suggestions for further research

As stated earlier, there is need to conduct further research on this study in organizations with more mature outsourcing strategies. This would be essential in testing the validity of this study's findings in a number of settings so that additional insights into performance management and outsourcing might be generated. Further research is also required to explore how business improvement techniques can be integrated into the outsourcing process, both to enhance performance and to reduce risks.

Another area that would be of interest would be to establish the tools that are used to monitor the effectiveness of an outsourcing strategy, how often the monitoring process should take place and where the responsibility of monitoring and evaluation of the process lies. Though companies like KIM have incorporated outsourcing strategy in their day to day operations, there is no clear toll available to measure how effective the strategy is in enhancing the performance of the organization compared to competitors.

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# APPENDICES

## APPENDIX 1: INTERVIEW GUIDE

### Part 1: General Information

1. Name of respondent. ....
2. What is your title/position? .....
3. How long have you worked in this organization? .....
4. How old are you? .....

### Part 2: Outsourcing Strategy

5. What are some of the factors that influenced the choice activities/processes/services that are outsourced in your company?  
.....  
.....
6. In retrospect, what factors were not imminent during outsourcing decision-making time but are now important and should be considered before outsourcing?  
.....  
.....

### Part 3: Outsourcing and Performance at Kenya Institute of Management

7. To what extent would you say that outsourcing has improved the overall financial performance of the organization?

8. To what extent would you say that outsourcing has improved the customer orientation in the organization?
9. To what extent would you say that internal business processes have improved as a result of outsourcing?
10. What impact has outsourcing had on KIM operations

.....  
.....

**Part 4: Successes and Challenges of Implementing Outsourcing Strategy**

11. What are some of the notable benefits of outsourcing to your firm's performance?
12. What are some of the challenges facing your firm in its outsourcing venture?
13. How has the firm managed to resolve the challenges mentioned above?

**THANK FOR TAKING THE TIME TO ANSWER THESE QUESTIONS**



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

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P O Box 30197  
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DATE 30<sup>th</sup> August, 2012

TO WHOM IT MAY CONCERN

The bearer of this letter Loice Kenubo Odhwen

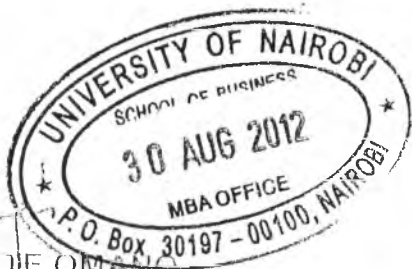
Registration No. DG1/60548/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



IMMACULATE OMANO  
MBA ADMINISTRATOR  
MBA OFFICE, AMBANK HOUSE



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10<sup>th</sup> September, 2012

TO WHOM IT MAY CONCERN

RE: RESEARCH APPROVAL - LOICE KERUBO OCHWERI

Reference is made to the above subject.

Kindly allow Ms. Loice Kerubo Ochweri, who is a staff member currently undertaking her MBA from the University of Nairobi, to carry out her research project in the company. She is in the process of collecting data to finalize on her project titled "*Outsourcing and performance at Kenya Institute of Management*".

This authority notwithstanding, discretion must be exercised in the use of company information including business strategies and policy documents.

Yours faithfully

DAVID MUTURI

CHIEF EXECUTIVE OFFICER