EFFECT OF BUSINESS PROCESS OUTSOURCING AS A STRATEGIC TOOL ON FINANCIAL PERFORMANCE OF SELECTED FIRMS IN NAKURU COUNTY

MARRION OLEDAMA KAIYONI

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DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a degree.

Signature…………………………….. Date………………………………

Marrion Oledama Kaiyoni

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This research project has been submitted with our approval as University supervisors.

Signature……………………………………. Date ………………………………………

Dr. Hellen Sang

Lecturer, School of Business

Kabarak University

Signature……………………………………. Date ………………………………………

Dr. Patrick Kibati

Lecturer, School of Business

Kabarak University

DEDICATION

Every challenging work needs self-effort as well as guidance of elders especially those ordained by God. I dedicate my humble efforts to my Father William Kaiyoni and Mother Paskaline Kaiyoni whose encouragement, love, financial support and prayers of day and night make me able to get such success and honor. I also dedicate this work to my Prayer warriors, Pastor Bernard Chepkwony, Pastor Weldon Koech, Pastor Ronald Koech and the entire believer's church of Chemosit, my sisters Medah Naserian and Cynthia Chelangat, my brother Billy sanare, my uncles Zachary Njuguna and Zakayo Kaiyoni, Aunt Chelangat, my friends Janet, Prudence , Rutoh, Waiyego and Wafula.

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ABSTRACT

Firms have always sought ways to gain a competitive advantage over their competitors; one avenue that firms have pursued to improve their competitive position in this new business environment is to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage and heightened performance to these firms. The study therefore sought to establish the relationship between BPO and financial performance. The study drew objectives to test the nature of the relationship between BPO and firm`s financial performance. The specific objectives were; to establish the effects of outsourcing of legal services on financial performance of selected firms, to find out the effect of outsourcing fumigation services on financial performance of selected firms, to assess the effect of outsourcing fire safety services on financial performance of selected firms and lastly to find out the effects of outsourcing security services on financial performance of selected firms. It was a survey focusing on 83 hotels and 14 manufacturing firms in Nakuru County that outsource the combination of services listed in the objectives of the study. The study had a response rate of 79.4%. Primary data obtained from the information in the questionnaires distributed to the hotels and manufacturing firms was used for analysis. Data was analyzed for descriptive and inferential statistics with the aid of Statistical Packages for Social Sciences (SPSS) software version 20. The correlation analysis revealed that all variables had a positive correlation relationship on the dependent variable. Outsourcing legal services ($\beta = 0.804$; $p = 0.000$), outsourcing fumigation services ($\beta = -0.686$; $p = 0.004$), outsourcing fire safety services ($\beta = 1.006$; $p= 0.000$) proved significance, while outsourcing security services turned out insignificant ($\beta = 0.215$; $p = 0.234$). These variables combined in a linear multiple regression equation explained 65.2% of the changes in financial performance. Data was presented using tables and figures. This study is expected to form a useful guide to the government as it implements the vision 2030 and especially on policies governing BPO. Being one of the six key sectors of the economic pillar, the findings of this study will make a substantive contribution with regard to how the benefits of BPO can be maximized. For those institutions already involved in outsourcing, the findings of this study may form an important benchmarking tool. Having clearly demonstrating the crucial factors BPO has towards financial success, decision makers in both public and private bodies will be guided on the need to put in place adequately skilled and capable manpower as well as the need to re-evaluate their approaches to BPO to ensure they are strategic.

Keywords: *Business process outsourcing, strategy, fire safety, legal services, fumigation services, security, firm performance, hotels, manufacturing firms.*

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LIST OF ABBREVIATIONS AND ACROYNMS

BPO BUSINESS PROCESS OUTSOURCING

CEO CHIEF EXECUTIVE OFFICER

CFO CHIEF FINANCE OFFICER

COO CHIEF OPERATIONS OFFICER

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Business process outsourcing is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace (Zineldin, 2002). BPO cannot be approached as a simple 'make or buy' decision but instead it should be considered as a corporate strategy put in place by top management to improve performance of firms and in this case, outsourcing should never only act as a mere mean of costs of reduction but it also implies a transfer of intellectual capital. From this perspective, the development and maintenance of competencies might be necessary to achieve a competitive edge against competitors and drained resources allowing top management to improve performance. The motives for this trend are both practical and economic. Proprietors and directors continually find themselves under pressures of time, there is not enough time to perform all that is required to build and manage a business. According to Peterson and Mahnovsk (2003), certain vital business tasks may not be truly controllable in nature or may be better done by another person who specialized in that task instead of having the general skills necessary for a business management function. From a cost view, founders and directors are realizing that certain tasks may be more effectively done by outside specialist, and thus be cheaper to the business.

Since the Industrial Revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that can "own, manage, and directly control" its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect revenues, even though expansion required several layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from blown up management structures. To increase their creativity and flexibility, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced (Handfield, 2006)

In the global scene, especially studies in the US and Germany, the determinants of BPO in firms however, offer a different explanation with the US study findings pointing to BPO as emerging due to high production costs resulting to poor performance. As such, firms embrace BPO in a bid to regain a better position in the market. In Germany on the other hand, BPO was found not to be confined only to firms struggling with high costs but also pursued by well performing firms with high revenue diversification hence conclusion that BPO is used as a strategic element in market differentiation to gain further competitive advantage (Ang & Straub, 1998; Fritsch & Wullenweber, 2007). Other countries such as India and the Philippines are considered as among the most significant nations to enter the BPO market. They are singled out as economies impacted positively as a result of their experience and contribution especially in offshoring. The two countries are fast growing BPO destinations both emerging as centre for outsourcing IT software due to experienced and affordable labour pool, cost structure and personnel competences (Kumar, 2005; Munoz, 2006).

Despite lack of sufficient information linking BPO to thrived firm performance, both the private and the public sector firms in Kenya have over the year's embraced outsourcing. In the public sector, BPO may have been mainly viewed as one of the cost cutting measures. This makes it a more cost effective way of operation, especially after the pressure from government for increased efficiency and self-sustenance has increased. Therefore, BPO may be as a result of a narrow objective geared towards reducing overheads through shedding some of the internal activities to external suppliers who could undertake them for a lower cost.

The Government of Kenya through the Vision 2030 has however attached more recognition to BPO by identifying it as one of the key six sectors of the economic pillar. The Vision categorizes BPO among the other economic development programs through which the government intends to explore with a view to increasing its Gross Domestic Product (GDP). To make Kenya a leading BPO destination, the government pledges to create a conducive and enabling environment whereby stand-alone operations or joint ventures will thrive hence make the country more attractive to investors. This move partly explains why more firms among them the state corporations have engaged in BPO. (Awino & Mutua, 2014)

Outsourcing as a key business strategy has been used by organizations in various sectors. Market aggressiveness has made organizations look without bias at business processes. Firms have been outsourcing business services, manufacturing processes and even entire business activities with success for a considerable length of time now. Contract manufacturing sector has benefited with outsourcing of material services initiated by the pharmaceutical and electronics sectors. Business processes such as security, tax filling, transport and recruitment management services are some of the most regular outsourced functions in most industries. Outsourcing of core functions like research and development, engineering, manufacturing and sales are being taken into account by corporations. (North, Blackburn & Curran, 1998)

Coming up with the power to control and hold important abilities, irrespective of whether they come from inside the organization or outside will be more important than the ownership of those capabilities (Gottfredson, Puryear & Phillips., 2005). According to Kakabadse and Kakabadse, (2003), market aggressiveness and the need for better financial performance are causing an increase in the scope, nature and scale of outsourcing across industries all over the world. The option to move all or part of a firm's business process to a third party plays a relevant role in the strategic plans of companies. Initially, companies opted to outsourcing to promptly improve performance and cut costs. In this age, companies use strategic and transformational outsourcing to look for improved business focal point, curb risks, come up with sustainable competitive advantage, and build technical capabilities and free resources for core business functions (Bartell, 1998). Companies opt to outsource almost all the functions they need i.e. legal services, accounting, printing, communications, security, payroll, HRM and several others, thus confining their own workforce to the important functions that constitute the firm's purpose.

There is a strong economic logic for big organizations contracting out certain business tasks, Most essential business processes are marginal to the core mission of the firm i.e. health insurance and food making are labor intensive yet not hard, thus they are suitable for handing over to external service providers especially in nations with meaningfully lower rates of wages. Gilley and Rasheed (2004) say that, a better corporate strategy would be the outsourcing of manufacturing functions to foreign low cost regions, especially in the footwear and clothing sectors, leaving the core internal business functions of the firm to its primary strengths.

Financial performance is a particular gauge of how well a company can utilize resources from its main way of business and make profits. This term is also used as a general measure of a firm's overall health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Performance refers to the degree to which an achievement is being or has been accomplished. The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like (Gharakhani, Farrokhi & Farahmandian, 2014).

BPO services have become a major issue for firms' performance. The highly competitive setting along with customers' demands for custom made products and services have pushed organizations to continuously evaluate, modify and reengineer their work. These operations have a clear contribution in firms' efforts to satisfy customers' expectations. Their outcomes, such as place, waiting and delivery time conveniences are easily seen by the final client and therefore demarcating its buying behavior. Because of resource limitations, not so many organizations have the capability to apply topnotch resources to all areas of competition. Thus, in order to gain competitive benefit, they must select areas in which they will concentrate their assets by outsourcing these services to specialists not generated by core competences; companies can see an increase in their firm growth.

A statement by Gilley and Rasheed (2000) says that there are three reasons for this; acquiring non-strategic services allows the firms to concentrate on what it really can perform well (on the services whose resources have a high strategic value). Such a focusing on services not included in the core competences can improve performance and allow the firm to be less rigid. Increasing outsourcing of non-core functions will improve the quality and that specific service, finally, the outsourcing of functions of low core value enables the company to cut costs and improve their competitive position (Gilley & Rasheed, 2000). Outsourcing is appealing to top management because it improves some of the dimensions of firm's performance. According to Kotabe and Helsen (1998), measures of performance which play a vital part in any measurement procedure of an outsourcing performance are: financial measures, strategic measures and measures of quality. While other researches use supplementary scopes of market performance i.e. cycle time, costs savings, customer satisfaction and efficiency to measure the effectiveness of outsourcing functions in the organization.

Outsourcing has three levels according to Brown and Wilson (2005), that is; strategic, tactical and transformational. Tactical outsourcing is practiced by firms to solve certain problems encountered by the organization against absence of finances to make huge investments, scarce internal executive capability or a need to downsize. Tactical outsourcing is anchored on cost contrast. According to Hussey and Jenster (2003), tactical outsourcing benefits are in the form of heightened savings, reducing the need of later investments and solving staffing matters. It involves doing business functions following the current guidelines. Tactical outsourcing sometimes extends to outsourcing marginal activities thus enabling the organization acquire industry specific abilities by collaborating with a certain vendor. This is a frequent way practiced by big organizations for dealing with high-volume redundant works. It is used for functions such as, HRM, procurement and payroll transactions.

Strategic outsourcing is used in the process of defining the firm and ends up in freeing the management staff to focus on the main business processes. Strategic outsourcing builds a long term worth ensuing from the customer employed with a lesser number of best integrated service suppliers. Linder (2004) states that transformational outsourcing is used to define a business, it enables a firm to hold headship place, shape justifiable competitive advantage and produce highest worth for the firm. Other issues addressed by transformational outsourcing are maturity and better governance of knowledge for business processes. Risks in transformational and strategic outsourcing are advanced than those in tactical systems, but they are mostly pooled with those from the third party.

The strategy of outsourcing is not driven by a problem-solving mentality. Instead, it is structured so that it is aligned with the company’s long-term strategies. The common denominator of outsourcing as a strategy is that the organization is externally focused. It embarks on the outsourcing with a view to achieving concrete results in the marketplace. The optimal relationship usually approaches a joint-venture/strategic alliance-type arrangement. The traditional customer-supplier relationship is typically inadequate for outsourcing as a strategy, as it often fails to allow the parties to address key business considerations and requirements (Franceschini, 2003). A structure that approaches a partnership-like arrangement-where the organization that is outsourcing and the service provider see each other as equals engaged in a common enterprise-tends to allow the service provider to deliver greater value during the course of the arrangement. This, however, is not an easy course to chart for many organizations.

The accepted wisdom is that organizations should not outsource activities that are "core" to their business that is, those activities that are tied up in the organization's identity-and that only "non-core" activities should be outsourced (Heckscher, 2003). Distinguishing core from non-core is not always easy, however. The notion of "shared-core" business activities illustrates the point. The concept captures the grey zone between core and non-core activities and was conceived as a tool to help decision-makers relinquish "ownership" of business activities that otherwise might have been classified as core, but which have had a history of underperforming internally. What attributes make core activities so important that they should not be outsourced? In their article "Linking Outsourcing to Business Strategy" authors Insinga and Werle (2000) argue that "core" and "strategic" activities confers a competitive advantage on an organization and should not be outsourced.

1.1.1 Manufacturing Firms in Kenya

There are a total of 33 manufacturing firms in Nakuru County (Kenya Association of manufacturers, 2014). According to Awino (2011) manufacturing is an important sector in Kenya and it makes a substantial contribution to the country's economic development. It has the potential to generate foreign exchange earnings through exports and diversify the country's economy. This sector has grown over time both in terms of its contribution to the country's gross domestic product and employment. The average size of this sector for tropical Africa is 8 per cent. Despite the importance and size of this sector in Kenya, it is still very small when compared to that of the industrialized nations United Nations Industrial Development Organization (UNIDO, 1987). Kenya's manufacturing sector is going through a major transition period largely due to the structural reform process, which the Kenya Government has been implementing since the mid-eighties with a view to improving the economic and social environment of the country.

Manufacturing firms fall under the umbrella of Kenya Association of Manufacturers (2002). Kenya Association of Manufacturers posits that removal of price controls, foreign exchange controls and introduction of investment incentives have, however, not resulted in major changes in the overall economy, and in particular, they have not improved the manufacturing performance. Therefore, to build a self-sustaining industrial sector, it is necessary to establish strategic linkages within the domestic economy. The growth in manufacturing sector has mainly been attributed to rise in output of the agro-processing industries. These included sugar, milk, grain milling, fish, tea, oils and fats processing sub-sectors. Other key sub-sectors of manufacturing that perform well are: manufacture of cigarettes, cement production, batteries (both motor vehicles and dry cells), motor vehicle assembly and production of galvanized sheets (Nzuku, 2015).

The Kenya Government has always been committed to developing a mixed economy where both public and private sector companies are present (Kenya Government, Development Plan 1989 - 1993). Public sector participation in manufacturing is much smaller than the private sector and is still decreasing due to government's change of policy; the emphasis is now being given to privatization of the industrial sector.

1.1.2 Hotel Industry in Kenya

The hotel industry in Kenya has a rich history dating back to the period before the 19th century, when the first catering unit was built in the Kenyan Coast. This industry is quite crucial because of its direct link with the tourism industry. Tourism contributes quite a substantive percentage of the GDP. According to Travel & Tourism Economic impact 2013-Kenya Report by World Trade and Tourism Council (2013) records that in Kenya, the direct contribution of Travel & Tourism to GDP was KES183.4bn (4.8% of total GDP) in 2013, and is forecast to rise by 2.9% in 2014, and to rise by 5.2% pa, from 2014-2024, to KES314.1bn (4.7% of total GDP) in 2024. Tourism is a major source of foreign exchange in the country.

The hotels in Kenya are classified by star ratings which are benchmarked with the international standards. Kenya Tourist Board is a body mandated with marketing Kenya as a tourist destination, thus markets the hotels inclusive. According to Kenya Tourist Board, records as at

2009, there were a total of 2,228 licensed hotels, with 72,665 beds within the country. Of all these, 6% are classified as 3 star and above, which constitute the 46% of total hotels most of which are in the outskirts of the major towns, but are of quality and offer very reasonable rates for the not-so-much of a high spender customer.

Due to the need to remain competitive and need to counter the recent challenges of terrorism, the hotels within the county have to adopt strategies that will enable them mitigate these challenges. Outsourcing is among the strategies that when well implemented can ensure stability of the hotels. According to the Tourism regulatory authority (2015), there are a total of 164 hotels in Nakuru County ranging from 1 star to 3 stars. 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%. 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.

1.2 Problem Statement

Lankford and Parsa (1999) stated that when business functions are done more efficiently and effectively by external suppliers, competitive advantage can be attained. According to the Outsourcing Institute Executive Survey (2006), the top ten reasons why companies should outsource are as follows; reduce and control operating cost, improve company focus, gain access to world class capability, free resources for other purposes, resources are not available internally, accelerate re-engineering benefits, non-core function that is too complex to manage, make capital funds available, share risks, and cash infusion.

According to Yankelovih (2003) two-third of companies world-wide outsources at least one business process to an external third party. This is most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought. Smith (2012) argues that outsourcing has the greatest impact on supply chain system leading to quick alterations in product capacity demanded by clients and changes in product mix ordered by customers and further emergency customer orders. Rapid deviations in the business sector of modern organizations require top management to accept strategies that focus on both present success and to invest in those activities that will sponsor a competitive advantage for later successes. 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, 2007). Lai, Ngai and Cheng (2005) studied a Hong Kong logistics service company and concluded that a fruitful operation of a quality system is crucial to existence and lasting success for a logistics companies. Sum and Teo, (1999) said that application of outsourcing in Singapore logistics firms empowered them to attain greater operational performance than their opponents.

There are several challenges facing Outsourcing specifically in Kenya i.e.: weak legal and institutional frameworks, lack of effective and focused marketing of Kenya as a suitable BPO destination, no data protection laws or a BPO sector policy, inadequate investment of the BPO industry and the lack of an inadequate skilled workforce. Kenya is yet to catch-up with popular BPO destinations such as Mauritius, South Africa, Ghana and India. (Wanjugu, 2016). This study therefore sought to determine the effects of BPO on financial performance in selected firms in order to form a useful guide to the government as it implements the vision 2030 especially on policies governing BPO. For those institutions already involved in outsourcing, the findings of this study may form an important benchmarking tool. Having clearly demonstrating the crucial factors BPO has towards financial success, decision makers in both public and private bodies will be guided on the need to put in place adequately skilled and capable manpower as well as the need to re-evaluate their approaches to BPO to ensure they are strategic.

1.3 Objectives of the study

1.3.1 Main Objective

The main objective of this study was to ascertain the effects of BPO as a strategic tool on financial performance of selected Organizations.

1.3.2. Specific objectives

i. To establish the effect of outsourcing legal services on financial performance of selected firms in Nakuru County.
ii. To find out the effect of outsourcing fumigation services on financial performance of selected firms in Nakuru County.
iii. To assess the effect of outsourcing fire safety services on financial performance of selected firms in Nakuru County.
iv. To evaluate the effect of outsourcing security services on financial performance of selected firms in Nakuru County.

1.4 Research Hypotheses

H_{01}: Outsourcing of legal services has no significant effect on financial performance of selected firms in Nakuru County.

H_{01}: Outsourcing of Fumigation services has no significant effect on financial performance of selected firms in Nakuru County.

H_{01}: Outsourcing of Fire safety services has no significant effect on financial performance of selected firms in Nakuru County.

H_{01}: Outsourcing of security management practices has no significant effect on financial performance of selected firms in Nakuru County.

1.5 Significance and Justification of the Study

This study will be beneficial to various stakeholders; it will be a source of information to the manufacturing and hotel industry and the public as it will be able to evaluate the use of BPO as a strategic tool vis-à-vis a firm's financial performance. The study will enable policy makers obtain knowledge of hotel and manufacturing industry dynamics and the appropriate strategies to be applied to enhance performance and therefore obtain guidance from this study in designing appropriate policies that will regulate the industry.

Academicians in the field of Strategic Management, Finance, Research and Literature as well as those in accounting related courses may find this research being so helpful. In particular this research project would be beneficial to the students of Kabarak University as a point of reference. The document will also be used by other researchers for further research study in the related fields or research in future. In addition the research may have an indirect effect of being transformed to another company because they are part of the stakeholders available in the satisfaction of their client and customers.

1.6 Limitations and delimitations of the study

The respondents approached were reluctant at first to give information fearing that the information sought might be used against them by their competitors. The researcher sought to explain the purpose of the study and eliminate the doubts. A letter of introduction from the university was also used to assure them that information provided will be strictly used for academic purposes and be confidential.

1.7 Scope of the study

The study focused on all hotels and manufacturing firms in Nakuru county that practice a combination of outsourcing services listed in the objectives; studying how using business process outsourcing as a strategic tool affects financial performance of these firms. It was done in the periods of September to November 2016

1.8 Definition of terms

Business Process Outsourcing - is a subset of outsourcing which is the contracting of a specific service or business task, such as payroll, legal, transportation, auditing, security or accounting to a third-party service provider (Rodolfo, 2005). This study adopts the same meaning.

Fire safety services - is the set of practices intended to reduce the occurrence or destruction of property by fire. Measures include those that are intended to prevent ignition of an uncontrolled fire, those that are used to limit the development of fire i.e installation and regular servicing of fire equipment (Ramachandran, 1999). This study adopts the same meaning.

Financial performance – this is a particular gauge of how well a company can utilize resources from its main way of business and make profits. This term is also used as a general measure of a firm's overall health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Almazari, 2011). This study adopts the same meaning.

Fumigation services – It is a process where a fumigant which is a chemical at required temperature and pressure can exist in a gaseous state in sufficient concentration which will be lethal to given pest organism (Beckett & Subramanyam, 2007). This study adopts the same meaning.

Legal process Outsourcing - refers to the practice of a corporation obtaining legal support services from an outside law firm or legal support services company (LPO provider). This practice includes agency work and other services i.e. such as court appearances document review, legal research and writing, drafting of pleadings and briefs, and patent services. (Law Pro Magazine 2012). This study adopts the same meaning.

Outsourcing - The word "outsourcing" defines the process of transferring the responsibility for a specific business function from an employee group to a non-employee group (Bendor, 1998).

Security services - is a private person who is paid to protect an organization's assets (property, people, money, etc.) from various hazards (such as waste, damaged property, unsafe worker behaviour, criminal activity, etc.) by utilizing preventative measures. They do this by maintaining a high-visibility presence to deter illegal and inappropriate actions, observing (either directly, through patrols, or by watching alarm systems or video cameras) for signs of crime, fire or disorder; then taking action to minimize damage (example: warning and escorting trespassers off property) and reporting any incidents to their client and emergency services as appropriate (Rigakos, 2002). This study adopts the same meaning.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical review, empirical review and conceptual framework. The theoretical review will cover the theories that have been developed relating to business process outsourcing. The empirical review will cover literature concerning the specific objectives that have be outlined in chapter one.

2.2 Theoretical Review

This study was based on the following theories;

2.2.1 The Theory of Transaction Cost Economics

Transaction cost theory explains why firms are created and why these firms enlarge and source out activities to third parties. According to Coase (1937), every company will grow so long as the firm's activities can be done cheaper inside the company e.g. outsourcing the functions to outside providers in the market. Transaction cost happens when a product or a function is done across a technologically separable border. Transaction costs are seen when a product or service is transferred from one point to the other, where new sets of technological capabilities are wanted to make the good or service (Williamson, 1981).

The transaction cost theory supposes that companies try to minimize the costs of exchanging resources with the environment, and that companies try to minimize the bureaucratic costs of exchanges within the company. Firms are assessing the costs of exchanging assets with the environment in contrast to bureaucratic costs of doing activities internally. The theory sees establishments and market as separate likely methods of organizing and coordinating economic transactions. When third party transaction costs are higher than the firm's inner bureaucratic costs, the company will develop because it is capable performing its activities cheaper than if the process was performed in the market. Nevertheless, if the bureaucratic costs are higher than the third party transaction costs, the company will be trimmed.

2.2.2 Agency Theory

The application of agency theory provides a justification for the establishment of alliances between organizations and their service providers (Blancero & Ellram 1997). Gilley and Rasheed (2000) discuss that it should be noted that the resource profile of organizations has a tendency to influence the extent to which all or part of the business process is outsourced. The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen & Meckling, 1976), but had spread over the time on explaining the relationship between two inter-firm subjects. In that context we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection (Arrow, 1985) should be resolved by monitoring and bonding (Barney & Hesterly, 1996). Consequently, the application of the theory in the outsourcing process research is in the Preparation Phase (when screening for vendors and defining its own attitude towards the type of the relationship). Naturally, the Managing relationship phase has been also explored. This theory links well with this study`s objective two on outsourcing fumigation services, once a firm has screened and identified the best vendor; a client – vendor agency relationship is created.

2.2.3 Resource Dependency Theory

The theory of Resource dependence is a study of how third party resources of firms disturb the internal behavior of the company. The procurement of external resources is an important tenet of both the strategic and tactical management of any company, this was first argued by (Pfeffer & Salancik, 1978). Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy (Decker, et al 2000). The resource dependancy theory of the organization holds that, in order to generate sustainable competitive advantage, a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable and not readily obtainable in factor markets. This theory rests on two keys points. First, that resources are the determinants of organization performance and second, that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs, a competitive advantage has been created (Priem & Butler, 2001). Organizations depend on multidimensional resources: labor, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must have to function. For example, a blueband outlet can't function without bread. An organization may adopt various countervailing strategies it may associate with more suppliers, or integrate vertically or horizontally (Juma'h & Wood, 2003).

2.2.4 Resource Based View Theory

The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney & Hesterly, 1996). If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor.

The theory has been also used to explain some of the key issues of the managing relationship and Reconsideration phases. The goal of an organization is to ensure it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. If a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. On the contrary, if the strategic value of target activities is low and no internal resources are available to perform such activities, it is beneficial for the company to outsource them. For the sustainable competitive advantages firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities (Langlois, 1990). The argument here fits with the need and effects of BPO in firms, whether they are cost reduction, new product/services introduction, focus on core competencies or labor flexibility and how they improve financial performance.

2.2.5 Concept of Core Competences Theory

The concept of core competences has been developed on the basis of the resource-based theory. Perunović and Pedersen (2007) defined the core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The application of concept of core competences in outsourcing became very popular among researchers. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and Reconsideration phases. Vendor’s competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina & Ross, 2003)

2.3 Empirical Review

2.3.1 Outsourcing Legal Services and Financial Performance.

The benefits of legal services outsourcing used to be labor costs arbitrage but that has changed over time as outsourcing of legal services continue to be of excellent quality. This is partly because service providers not only specialize in the process driven work but also in work higher up the value chain where real legal advice is delivered. In addition, they fortify their service by contributing innovative value-adding approaches to other parts of the business (Harmon, 2008).

Outsourcing legal work to external vendors allows organizations to access high level talent and niche expertise that does not exist within the firm. For example, litigation firms lacking litigation support expertise may outsource certain aspects of litigation support, such as coding and document review, to niche providers. Access to external talent is particularly useful for firms to fill in gaps in internal competencies. (Irving, 2015). The global legal market is worth approximately $400 billion USD - 60% of this total is accounted for by the US. The global legal services outsourcing market is currently estimated to be worth approximately $440 million USD or 0.1% of the whole legal sector. Current market size represents nearly a 50% increase on the approximate legal services outsourcing market sector of $300 million USD in 2008. The most popular international destination for outsourcing of legal services is India, closely followed by the Philippines, South Africa and New Zealand. Legal services outsourcing firms in India and the Philippines are expected to generate approximately $960 million USD by 2015. According to Rosenbloom and Piotrowski (2005) three quarters of the current Indian outsourcing of legal services is generated by US firms and corporations and one fifth comes from the UK. The UK figure is picking up speed and expected to grow significantly throughout 2007 -13. More than 90% of work is being outsourced directly by corporate counsel or on their behalf by law firms. Outsourced work includes; patent applications and records management, litigation support, document review, legal research and sometimes drafting pre-trial motions and briefs.

2.3.2 Outsourcing Fumigation Services and Financial Performance.

According to a study by Lam and Han (2005), from the previous research in hotels outsourcing in Shanghai, supplier's brand name and capability were taken into account which encourage the hotels to make a wise decision on whether to outsource or not to outsource. Hotels will return and consume the same service from the vendors if the service is good and of well-known quality. Outsourcing enables an organization to have means of accessing expertise not be available; particularly in the fumigation technology area, companies may not have personnel available in house to take on these projects. According to Bacon (1999) some services requires experts who are scarce. By outsourcing organizations seek technological knowhow which can be achieved by using vendors with more experience and are more specialized processors. An insider service may require 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 decide to outsource the labor.

Espino and Robaina (2005) stated that Hotels may adopt outsourcing in their service activities in order to cope with the globalization and the competitive environment in today's businesses operations. This includes by transferring the hotel's activities to experts/professionals who then will perform that service for the hotels. Besides that, hotels might want to focus on their main/core activities in order to cope up with the ever changing environment such as cultural changes, advanced technologies and fierce competition. Furthermore, if a hotel function was outsourced to a vendor, they may be able to use the well-known brand name of the outsourcing vendor which acts partly as a marketing tool, when customers learn that a certain hotel has its fumigation service done by a highly performing company, their confidence and loyalty increases to that particular hotel. This in turn increases the revenue and improves the company`s financial performance (Azurin, Shahin & Sulaiman, 2013)

In their article, Kotabe and Michael (2009) argued that there is a negative curvilinear relationship between a firm's level of outsourcing services and its performance. What follows from this is that across all of firm‘s activities, it's the degree of outsourcing that has a negatively curvilinearly related to its performance. In a linear test of outsourcing and performance they would therefore find a positive relationship between outsourcing and performance when firms have not yet reached their optimal point, a negative relationship when firms have gone beyond their optimal point or no relationship when a firm is very close to its optimal point.

2.3.3 Outsourcing Fire Safety Services and Financial Performance.

One of the most heavily outsourced functions by firms is fire safety - depending on the business, this can be a complex area and it's only to be expected that the directors will require some help. Using an external fire safety consultant can mean that there's one less thing for the directors to worry about. Some of the main services fire safety vendors do are; Fire and explosion hazard assessment of production site and processes, Assessment of fire protection system, response plans, intervention scenarios and deployment plans, evacuation planning, fire training, Training and education of onsite employees and subcontractors in basic firefighting and first aid, Fire watchers, Control of hot work permits, Prevention rounds and inspection, Shutdown procedures and lastly Drills and exercises involving employees. (Outsourcing fire safety what`s the personal risk 2016)

According to Ghodeswar and Vaidyanathan (2008), Revenues will be one of the reason firms decide to outsource. The increase of revenues will encourage the firms to go beyond or across borders in order to generate more profits to its business. Outsourcing is to attain competitive development goals by acquiring high market access to influence the service provider's best methods, systems and capacity. Embarking to outsourcing fire safety services also will expand capacity to design, test and build new products and service, to stretch its limit in handling the increased volume of business and to manage demand efficiently through outsider's automation, process maturity and the latest technology. It is also to focus on enablers of business growth and strategies to fulfill them (Hamel & Prahalad, 1994).

2.3.4 Outsourcing Security Management Services and Financial Performance

Security guards are one of the first lines of defense for a facility. In addition, these personnel interact with visitors and clients and should be trained as such. Another critical decision is determining whether to use in-house guarding staff or outsource guard services. If working with a security consultant, this would be identified in the risk assessment process, but firms still need to be cognizant of the following pros and cons of each. Below are some of the cons of using in-house security service: high insurance expenses, Liability unveilings and the requirement of different personnel and management skills. Patrol officer work requires a different mentality than that of a security technician, Cost increases in worker benefits and compensation, More vehicles may need to be purchased for patrols, More supervision required, Dealer is directly responsible for background checking, training, and licensing of guards (Harris, 2008).

Below are some of the advantages of outsourcing security service; Greater control of quality and appearance of officers, Officers may have greater loyalty to a dealer, Enables better communication with customers due to direct communication. The cons to outsourcing security services are as follows; Guard services may not be available in certain areas, Less control of quality and appearance of officers, Customer service and response times not easily verified, Guards usually are not as well trained in electronic/physical security, Potential for unscrupulous subcontractor to provide confidential information to competitors or steal business, Contract between the dealer and subcontractor is needed. According to Harrison & Kelley (2003), Legitimate fees will be spent if counsel is appointed to write a contract because an outside third party has been involved, a delay in communicating customer issues to the dealer may be experienced.

2.3.5 BPO and Financial Performance.

BPO may be a source of enhanced firm competitiveness since competitive advantage is embedded in a set of relationships across the boundaries of firms rather than residing inside an individual firm (Saxena, & Bharadwaj, 2009). This argument not-withstanding, uncertainty and divergent views loom over BPO's impact on firm performance with some scholars claiming that, BPO decisions are not just about do it yourself or outsource, but instead there are long-term relationships which are neither one-off nor pure market in form and which may result to positive image of a firm. Other claims are that, it is often difficult to specify BPO requirements in a manner that leads to observable and verifiable outcomes (Qureshi & Jiang 2006).

Support for BPO's positive impact on firm performance is anchored on the argument that, one of the main reasons for outsourcing is to enable firms heighten their strategic focus hence concentrate full energies and resources on value chain activities that are at the core of their strategies and for which they can create unique values (Thompson, 2007). Also in support of BPO's positive impact, Gilley and Rasheed (2000) argue that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing narrowly on things they do best. Similarly, other scholars in support for BPO' positive contribution to performance view the distinctive resources gained from the alliance partners as generating higher rents than those generated independently by the resources of each firm (Rodriguez & Robaina, 2006). To this effect, adoption of BPO has become the norm with outsourcing being viewed as the centre of focus in different sectors due to its envisaged potential to reduce costs and enhance efficiency (Khan, & Fitzgerald, 2004). Thus the choice by firms to adopt BPO has been prompted by specific benefits accruing to include: reduced costs often associated with bureaucracies; reduced uncertainty; spreading risks by switching suppliers when market conditions demand; higher quality goods/services due to promotion of competition among outside suppliers; more cost effective technologies; enhanced learning; increased financial flexibility and speed of response and; greater efficiency all envisaged to lead to improved firm's performance (Kotabe & Helsen, 1998).

On the other hand, those against the envisaged BPO impact on performance point out that, the contribution of BPO may not be as rated hence raise concern that the benefits are often over-estimated whereas the transaction costs underestimated. This argument draws its support from the pioneer studies relying on financial data which portray evidence of BPO impact as being based on perceptual or self-reported data with contributions limited to narrow areas lacking clarity on how well they co-relate with actual firm performance. Assessment of financial impact has therefore been forced to rely on managers' estimates in place of tangible metrics (Gorzig & Stephan, 2000; Jiang & Qureshi, 2006). PricewaterhouseCoopers (PWC) in Kenya encountered similar challenges in quantifying the benefits of BPO by relying on pioneer studies on financial data which were generally based on perceptual or self-reported data hence the argument that, the difficult in working out true benefits of BPO is due to the fact that, many outsourcing deals are narrowly tailored focusing mainly on cost reduction.

In his contribution, Thompson Jr. (2007) concerned over BPO benefits point out that, the manner in which BPO decisions are generated, structured and implemented play a major role in determining its impact on firm performance and that not all outsourcing initiatives are strategically calculated hence weak evidence on BPO's positive impact on firm performance.

Specific BPO outcomes seen as negatively impacting firm performance include; destruction of long-run competitive advantage due to reduced innovation and control of firm's activities; shifting of knowledge to supplier organizations; loss of long-run research and development competitiveness; discontinuity of skill supply and retention; high transaction costs eventually eroding the savings made; possibility of ad-hock way of outsourcing which could lead to uncertainty and low morale among employees; eventual loss of market share whereby knowledge gained by supplier is used to market their own aggressively hence achieving market dominance. Cases in point are the Asian firms which have achieved market dominance in US with their initial entry facilitated by supplier arrangement. These shortfalls point to the fact that, while many organizational goals have been dynamic, their approaches have not been flexible enough to change in-tandem with the changes in business (Davidow & Malone, 1992)

In many firms therefore, BPO may not been necessarily the viable option to attain competitiveness rather a lure into ignoring internal weaknesses as organizations switch to external suppliers (Cooke, 2005; Levy, 1995; Gilley & Rasheed, 2000). Scholars have gone further and identified some cases where it may be unnecessary to determine BPO's impact on performance whether positive or negative since the process itself is prone to failure. BPO failures are attributed to firstly outsourcing of activities that should not have been outsourced in the first place. This arises because of firms' failure to understand their core and distinctive capabilities. These are also their source of competitive advantage and should have been retained in house. Secondly, wrong selection of vendor. This is caused by failure of outsourcing firms to undertake due diligence to verify the capacity of the service providers.

Thirdly, writing a poor contract that has no provision for setting expectations, commitments there in and safety nets in case of inherent differences. These lead to low morale employees who generally view outsourcing as an underestimation of their skills. Fourth, loss of control of the outsourced activity, here; the outsourcer lacks capability to manage the vendor occasioned by lack of able managers. Lastly, overlooking the hidden costs of outsourcing incurred before and after outsourcing. This is occasioned by lack of legal experts in drawing contracts and/or technical experts for developing service performance levels and; failing to plan an exit strategy which is essential, considering that BPO involves a relationship hence should be viewed on a continuum making it necessary to put in place long-term and short term exist clauses (Barthelemy & Adsit, 2003; in Okatan, Wilson, & Brown, 2005).

Earning Profits is mostly given priority where outsourcing is practiced. However, if it is looked at from the viewpoint of change, practicing these services alone does not lead to a short-term financial upgrading. If a viewpoint of this type is taken for contracting reasons, it is definite that after a certain period of time, no long-term profitability will be showed. Analyses shows that most of the functions done at a loss in the firm won't lead to losses in the short-term if outsourced, where an analysis of the firm's indirect and direct costs has not been done it may even be the case that having such services performed externally won`t be profitable to the firm. According to Arrow (1985), the outsourcing option can involve the use of resources for services which are needed to be done in the firm and cannot be removed instantly. Mostly, information hubs are not for profit establishments where profitability cannot cause a raise in revenue but instead improve utilization of assets since this profitability makes it likely to offer more utility with the same kind of assets.

Mostly, outsourcing is the genesis of a revolution in the firm's attitude towards expenses and usually encompasses a new way of examining the services it wishes to offer and why they should be offered, in many cases these establishments do not even take into consideration the cost of some services they execute. Carol and John (1999) said that another reason for outsourcing is the prioritization of some services whose profitability is huge, particularly where trained expert staff is needed and the period required to train such employees might be long, meaning that the related internal costs will be dreadful to tolerate. These types of activities are best to be considered for outsourcing.

2.4 Research Gap

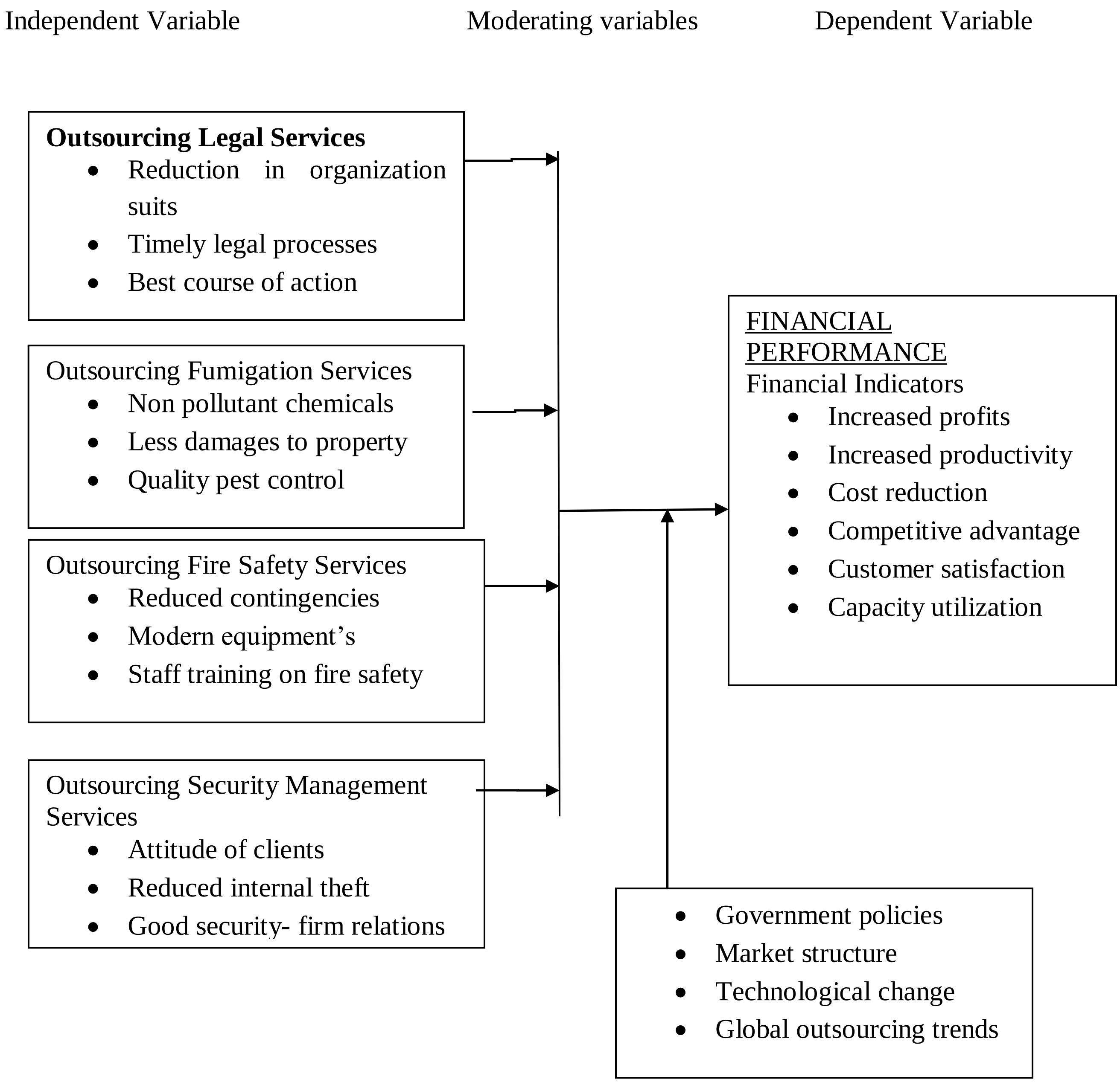
The concept of outsourcing of services has been expounded both in the literature as well as from the empirical studies done on the subject area, in which various scholars attempted to explain the various phenomena concerning outsourcing. There have been several studies conducted with regard to outsourcing in the Kenyan context. For instance, Gichuru (2012) did a study on critical success factors in business process outsourcing of logistics companies in Kenya. It established the factors to include investment of international companies in the local economy, internet connectivity, top management support, creation/expansion of a potential niche and necessary expertise. Mulama, Chirchir and Magutu (2012) also did a study on Business process outsourcing but were comparing business process outsourcing practices and performance of large manufacturing firms in Nairobi. He established that business process outsourcing practices being adopted by the large manufacturing firms resulted to increased productivity, organizational effectiveness, increased profits, continuous improvement and improved quality.

Wambui (2010) researched on the analysis of outsourcing at Kenya Armed forces found out that the concept of outsourcing in the Kenyan armed forces is so much limited due to the secretive nature of their work such that adoption of the strategy is on supply of non-essential services such as stationery. She observed that in the developed world maintenance of military hardware is in some cases outsourced. Kamuri (2010) undertook a research on challenges facing the implementation of BPO strategy at the Kenyatta National Hospital and found out among others for an organization to realize the competitiveness resulting from outsourcing, then it should be able to develop a cordial relationship with all the supplier of goods and services which will facilitate efficient and effective delivery of services.

Bosire (2011) researched on the Impact of outsourcing on lead time and customer service among supermarkets in Nairobi. He found out that outsourcing of services in supermarkets has a direct effect with the lead times of product delivery and that among those supermarkets that have outsourced procurement of products from the suppliers, time taken to deliver the same products to their warehouses has tremendously reduced. While researching on challenges of business outsourcing in Kenya Power Company, Kangaru (2011) found out that external vendors push ahead manufacturing firms that operate departments on quality implementation and improvement issues in outsourcing services. Moreover, Mathenge (2013) carried out a study on the factors affecting outsourcing of accountancy services by Small and Medium Enterprises in Kenya. Using the top 100 SMEs in 2012 primary data from the purposively sampled SMEs was collected by use of semi-structured questionnaires filled by the senior managers, CEOs or Finance Managers of the SMES. The study found that SMEs outsource accountancy services. In addition, the study established that lack of in-house expertise is a factor in SMEs outsourcing decision-making. External expertise gives SMEs competitive advantage and increases their chances of survival in the current market. SMEs take a broader view of accountancy outsourcing by isolating their core competencies.

Ochola (2013) carried out a research on outsourcing strategies adopted by telecommunication vendor companies in Kenya. It was found that the choice for formulating the strategy for outsourcing and selection of outsourcing partner is a challenging task and needs to be molded to the situation of the company. Smith (2012) investigated outsourcing and supply chain performance among mobile telephone service provides in Kenya, this study established the relationship between outsourcing and supply chain performance among mobile phone service providers, but with no major theatrical studies on how outsourcing affects the performance of the employees who have to change employers and work under new management. Mwanzia (2012) executed a research on creating competitive advantage through outsourcing; A survey of five star hotels in Nairobi. This study was solely on specified class of hotels and in the context of Nairobi. Findings in this study did not address the issues concerning the need to outsource across the various levels of hotels and specifically in the Nakuru County

In spite of having various studies undertaken on how outsourcing decision affects organizational performance in an organization by (Gichuru, 2012, Mulama, Chirchir & Magutu, 2012, Wambui, 2010, Kamuri, 2010, Bosire, 2011, Kangaru 2011, Mwanzia, 2012, Mathenge, 2013, Ochola, 2013 & Smith, 2012) there has been little research on the effect of business process outsourcing as a strategic tool on financial performance of Hotels and Manufacturing firms. Thus this research was uniquely positioned to establish the missing link between the effects of business process outsourcing as a strategic tool and financial performance in reference to Nakuru County.



Source Author 2016

Figure 2.1: Conceptual Framework

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

This study adopted an analytical survey approach. Tanur (1982) described survey as the means of collecting information about a large group of elements referred to as the population. He said that a survey is whereby data collection is by asking people structured and predefined questions, it produces quantitative descriptions of some aspects of the study population in which it is concerned with relationships between variables, or with projections of findings descriptively to a predefined population.

3.3 Population of the Study

The population of the study was Hotels and manufacturing companies that are based in Nakuru County and outsource the combination of services listed in the objectives of the study. According to the Kenya Association of Manufacturers, there are a total of 33 manufacturing firms operating in Nakuru County out of which 14 outsource the combination listed in the objectives of this study (Appendix VI). Tourism regulatory Authority of Kenya (2015) registered number of 301 hotels in Nakuru County, out of which 83 outsource the combination of objectives listed in this study (Appendix V). Respondents were the Chief Executive Officers (CEOs) or Managing Directors (MDs) or Chief Operating officers (COO`s), albeit in-cases where they are not available, any other top manager or member of the management team became the respondent. These are viewed as officers who by the virtue of their positions are responsible for the success of the organization hence expected to be well versed with strategy formulation and implementation and also on matters of procurement of goods/services from external vendors. The researcher had one respondent per organization bringing us to a total of 97 respondents

3.4 Sample Design and size

The study covered 14 Manufacturing companies and 83 Hotels in Nakuru County which were chosen purposively from the fact that they outsource the same combination of services listed in the objectives of this study. From there a census of all the 97 of them was carried out. According to Kothari, Wasley and Leone (2005) a census is a study of every unit, everyone or everything, in a population. It is known as a complete enumeration, which means a complete count. Census was used because the target population was manageable and the researcher wanted each member of the target population to have an equal chance of participating in the study.

3.5.0 Data Collection instruments

Primary data was collected by use of self-administered questionnaires that consists of both open and closed ended questions that has been designed to elicit specific responses for qualitative and quantitative analysis respectively. Data is collected by use of questionnaires among selected individuals to determine their opinion, attitude and habits concerning an idea (Orodho & Kombo 2002). The researcher preferred using a questionnaire because the target respondents are literate and also it can be administered to many respondents simultaneously. The questionnaire was designed on a five point Likert type scale and links BPO to firm financial performance. Questions on BPO elicits data BPO policy and effects of BPO on the firm`s financial performance. The questionnaires were administered by drop and pick method. Such approaches were used by Burnes and Anastasiadis (2003) in their case studies examining different motivations behind outsourcing in public-private sector organisations in UK whereby managers in-charge of strategy and operations were the respondents.

3.5.1 Piloting the Research Instrument

Before administering the questionnaires, the researcher pre tested the questionnaires in 3 Hotels and 2 Manufacturing firms in the neighboring County of Kericho, this represented 5% of the target population.

3.5.2 Validity of Research Instrument

Validity is the degree to which data in a research is accurate and credible. To achieve high level of validity, the study employed self-administration approach of data collection. Most questionnaires were filled as the researcher stood by waiting in order to provide clarifications where necessary and to ensure that the right people fill the questionnaires. The researcher also pre tested the research instrument in a pilot group that consisted of 3 hotels and 2 manufacturing firms in the neighboring County of Kericho to test for validity. The questionnaires were also critically examined by the researcher`s supervisors and two other specialists. This made the research findings more objective and dependable.

3.5.3 Reliability of Research Instrument

Mugenda and Mugenda (2003) defined reliability as the extent to which a research instrument yields findings that are consistent each time it is administered to the same subjects. As Gray (2004) puts it, reliability is the degree to which an instrument will produce similar results at different periods. In order to test the reliability of the instruments, internal consistency techniques were applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. A coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicate high reliability (Mugenda, 2003). A reliability coefficient of 0.942 was achieved as shown in Table 3.1 below

Table 3.1 Reliability Statistics

Cronbach's Alpha	N of Items
.942	39

Source: Research Data (2016)

3.5.4 Pre study findings

The researcher visited 301 hotels and 33 manufacturing companies with an aim of establishing the type of services they commonly outsource, a pre study worksheet was used (appendix v) which revealed that of the total companies visited, 83 hotels and 14 manufacturing firms outsource the same combination of services listed in this study.

3.6 Data Analysis

Both quantitative and qualitative data collected was classified and tabulated with regard to their type and source. Two methods of data analysis were therefore adopted to enable the researcher conduct a comprehensive analysis. Descriptive and inferential statistics was used to analyze data. The descriptive data was analyzed using frequency distribution (chi square test and tables) while the inferential statistics was analyzed using multiple regression and correlation analysis. Data has been presented using tables and figures.

In order to establish the relationship between BPO and financial Performance of hotels and manufacturing firms in Nakuru County, the following multiple regression model applied:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Financial performance

B_0 = Constant

X_1 = Legal services

X_2 = Fumigation services

X_3 = Fire safety services

X_4 = Security management services

ε = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Régression Coefficients

3.7 Ethical considerations

The research supported the principle of voluntary participation. Data was collected with the informed consent of participants. Privacy and confidentiality of participants was assured and information sought would not be made available to anyone who is not directly involved in the study. The principal of anonymity was guaranteed by keeping the participants anonymous throughout the study.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRATATION

4.1 Introduction

This chapter analyses the data that was collected from respondents. Analysis has been done using chi square, presented in frequency tables and percentages then interpreted. Qualitative analysis analyzed information on data collected in open-ended questions

4.2 Response Rate

From the table 4.1, the researcher prepared and issued out 97 questionnaires to the respondents. 77 of the questionnaires were responded to and have been analyzed translating to 79.4%, while 20 questionnaires did not get response translating to 20.6%. According to Rubin and Babbie (2010) 50% of the response rate is said to be adequate, 60% is considered good, while 70% is said to be very good. This collaborates with Mugenda and Mugenda (2003) recommendation of a response rate of 50% based on the rule of thumb. Therefore this study considered the response rate adequate for analysis and generalization since it exceeded the minimum recommended.

Table 4. 1 Response Rate

Sector	Number of Questionnaires issued	Number of Questionnaires received	Percentage
Manufacturing firms	14	11	78.6%
Hotels	83	66	79.5%
Total	**97**	**77**	**79.4%**

Source: Research data (2016)

4.3 Descriptive Statistics

This sub section presents the results of the descriptive statistical analysis of the data and their interpretation.

4.3.1 Company profile

4.3.1.1 Designation of the Respondents

From the table 4.2, the study shows that managers dominated the respondents representing 45.5% followed by accountants 10.4% then the assistant managers 9.1% followed by the proprietors who stood at 7.8%, processors and regional officers represented the least respondents at 1.3%. The high number of managers, accountants and assistant managers met the expectation of the researcher since they are viewed as officers who by the virtue of their positions are responsible for the success of the organization hence expected to be well versed with strategy formulation and implementation and also on matters of procurement of goods/services from external vendors.

Table 4.2 Designations of the Respondents

Title	Frequency	Percent
Managers	35	45.5
Supervisors	5	6.5
Proprietors/owners	6	7.8
Directors	5	6.5
Operations officers	2	2.6
Finance officers	2	2.6
CEOs	3	3.9
Accountants	8	10.4
Reception	2	2.6
Assistant Managers	7	9.1
Regional officers	1	1.3
Processors	1	1.3
Total	**77**	**100.0**

Source: Researcher 2016

4.3.1.2: Length of Continuous Service with the Organization

From table 4.3 it is evident that respondents have differing experiences, Majority of the respondents who accounts for 46.8% have 5-10 years, while 31.2% have less than 5 years and 22.1% have over 10 years' experience in that organization.

Table 4.3 Length of Continuous Service with the Organization

Length in years	Frequency	Percent	Valid Percent	Cumulative Percent
less than 5 years	24	31.2	31.2	31.2
5-10 years	36	46.8	46.8	77.9
over 10 years	17	22.1	22.1	100.0
Total	**77**	**100.0**	**100.0**	

Source: Research data (2016)

4.3.1.3 Length of operation of the Company

From table 4.4, A majority of 36.4% of the respondents` organization have been in operation between 6-10 years followed by 24.7% representing Organizations existing for over 16 years while those between 11-15 years and under 5 years representing 19.5% each. This showed for how long they have served thus strategies chosen by them are assumed to be their best available options rationally

Table 4.4 Length of operation of the Company

Length in years	Frequency	Percent	Valid Percent	Cumulative Percent
under 5 years	15	19.5	19.5	19.5
6-10 years	28	36.4	36.4	55.8
11-15 years	15	19.5	19.5	75.3
over 16 years	19	24.7	24.7	100.0
Total	77	100.0	100.0	

Source: Research data (2016)

4.3.1.4 Operation in Other Countries outside Kenya

90.9% of the respondent represents companies that do not operate in countries outside Kenya while 9.1% represented those that operate in countries outside Kenya as show in table 4.5. This shows us the number of local and multinational companies.

Table 4.5 Operation in Other Countries outside Kenya

Decision		Frequency	Percent	Valid Percent	Cumulative Percent
	yes	7	9.1	9.1	9.1
	no	70	90.9	90.9	100.0
	Total	77	100.0	100.0	

Source: Research data (2016)

Uganda, Tanzania, Rwanda, India and China being the most frequent foreign countries of operation

4.3.2 Outsourcing Legal Services

Table 4.6 Outsourcing Legal Services

Outsourcing Legal Services	**S.D Freq (%)**	**D Freq (%)**	**N Freq (%)**	**A Freq (%)**	**S.A Freq (%)**	**X^2**	**P>CHSQ**
In general, we feel well represented by our outsourced lawyer	3 (3.9%)	5 (6.5%)	14 (18.2%)	42 (54.5%)	13 (16.9%)	63.5	<0.0001
Our outsourced lawyer goes an extra mile to make sure our firm gets what it needs in the legal field	2 (2.6%)	8 (10.4%)	9 (11.7%)	40 (51.9%)	18 (23.4%)	57.61	<0.0001
Outsourcing legal services enables our firm attain expertise that we couldn't get internally	3 (3.9%)	8 (10.4%)	15 (19.5%)	36 (46.8%)	15 (19.5%)	41.117	<0.0001
There are no unnecessary delays in the firm`s legal process after outsourcing legal services	3 (3.9%)	10 (13%)	13 (16.9%)	37 (48.1%)	14 (18.2%)	42.675	<0.0001
Outsourcing of legal services has reduced on unnecessary intimidation of staff from authorities	3 (3.9%)	9 (11.7%)	14 (18.2%)	33 (42.9%)	18 (23.4%)	33.325	<0.0001
Outsourcing legal services has allowed our organization to choose from the best course of action.	4 (5.2%)	4 (5.2%)	8 (10.4%)	41 (53.2%)	20 (26%)	64.364	<0.0001
Outsourcing legal services has reduced organization legal suits significantly	2 (2.6%)	8 (10.4%)	14 (18.2%)	33 (42.9%)	20 (26%)	36.831	<0.0001

Key: SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SA=Strongly Agree, Freq= Frequency, %= Percentage.

Source: Research data (2016)

The findings in table 4.6 above show that a high of 54.5% of the respondents (χ^2=63.5, P<0.0001) agreed that they felt well represented by their outsourced lawyer, a majority of 51.9% (χ^2=57.61, P<0.0001) agreed that their outsourced lawyer usually goes an extra mile in ensuring that their firm attains what it needs in the legal field, these include things like following up on patents and filling cases. On matters regarding attaining expertise that could otherwise not be attained had they not outsourced legal services, a majority of 46.8% (χ^2=41.117, P<0.0001) agreed that to be true, this finding is consistent with that of Irving (2015) who said that outsourcing of legal work to external vendors allows organizations to access high level talent and niche expertise that does not exist within the firm and to fill in gaps in internal competencies. Langlois (1990) also confirms this when he found out that for the sustainable competitive advantages, firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities.

A high of 48.1% of the respondents (χ^2=42.675, P<0.0001) agreed that ever since they practiced outsourcing of legal services, there are no unnecessary delays in the firms legal process. Most of the respondents (42.9%, χ^2=33.325, P<0.0001) agreed that outsourcing legal services has reduced unnecessary intimidation of staff from the authorities. In addition, 53.2% of the respondents (χ^2=64.364, P<0.0001) agreed that outsourcing legal services allowed their organization choose from the best course of action.

Most (42.9%) of the respondents (χ^2=36.831, P<0.0001) agreed that outsourcing legal services reduced organizational legal suits significantly. All the above response had chi square values that were significant. These responses are in conformity with those of Harmon (2008) which states that outsourcing of legal services continue to be of excellent quality. This is partly because service providers not only specialize in the process driven work but also in work higher up the value chain where real legal advice is delivered. In addition, they fortify their service by contributing innovative value-adding approaches to other parts of the business.

4.3.3 Outsourcing Fumigation Services

Table 4.7: Outsourcing Fumigation Services

Outsourcing fumigation Services	**S.D** Freq (%)	**D** Freq (%)	**N** Freq (%)	**A** Freq (%)	**S.A** Freq (%)	**X^2**	**P>CHSQ**
Outsourcing fumigation services has saved the organization from losing its customers	11 (14.3%)	4 (5.2%)	14 (18.2%)	33 (42.9%)	15 (19.5%)	29.948	<0.0001
There is improved confidence from customers knowing that an expert handles fumigation services	7 (9.1%)	10 (13.0%)	12 (15.6%)	35 (45.5%)	13 (16.9%)	32.546	<0.0001
There are less damages to commodities due to expert handling of fumigation services	5 (6.5%)	5 (6.5%)	15 (19.5%)	32 (41.6%)	20 (26%)	33.325	<0.0001
High quality pest control services has been achieved by the organization	2 (2.6%)	5 (6.5%)	16 (20.8%)	30 (39.0%)	24 (31.2%)	37.351	<0.0001
Staff welfare has improved due to implementation of safety procedures	4 (5.2%)	2 (2.6%)	16 (20.8%)	34 (44.2%)	21 (27.3%)	44.623	<0.0001
There is adoption of modern infrastructure like use of effective non pollutant chemicals	4 (5.2%)	4 (5.2%)	16 (20.8%)	28 (36.4%)	25 (32.5%)	33.195	<0.0001

Key: SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SA=Strongly Agree, Freq= Frequency, %= Percentage.

Source: Research data (2016)

The findings in table 4.7 above show that a high of 42.9% of the respondents (χ^2=29.948, P<0.0001) agreed that outsourcing fumigation services saved the organization from losing its customers, A majority of 45.5% (χ^2=32.546, P<0.0001) agreed that the confidence levels of their customers improved after knowing that experts handle fumigation services in the organization, the above two findings corresponds with those of Azurin, Shahin and Sulaiman (2013) who stated that when customers learn that a certain hotel has its fumigation service done by a highly performing company, their confidence and loyalty increases to that particular hotel. This in turn increases the revenue and improves the company`s financial performance. A majority of 41.6% (χ^2 =33.325, P<0.0001) agreed that there were less damages to commodities due to expert handling of fumigation services.

A high of 39% of the respondents (χ^2 =37.351, P<0.0001) agreed that ever since they practiced outsourcing of fumigation services, high quality pest control standards has been achieved by the organization this conforms with Bacon (1999) who said that some services requires experts who are scarce. By outsourcing, organizations seek technological knowhow which can be achieved by using vendors with more experience and are more specialized processors. Most of the respondents (42.2%, χ^2 =44.623, P<0.0001) agreed that staff welfare improved due to implementation of safety procedures by outsourced fumigation vendors.

In addition, 36.4% and 32.5% of the respondents (χ^2 =33.195, P<0.0001) agreed and strongly agreed respectively that there is adoption of modern infrastructure in the organization after outsourcing fumigation services, findings by Espino and Robaina (2005) supports this statement, they stated that Hotels may adopt outsourcing in their service activities in order to cope with the globalization and the competitive environment in today's businesses operations. This includes transferring the hotel's activities to experts/professionals who then will perform that service for the hotels. Besides that, hotels might want to focus on their main/core activities in order to cope up with the ever changing environment such as cultural changes, advanced technologies and fierce competition. All the above response had chi square values that were significant.

4.3.4 Outsourcing Fire Safety Services

Table 4.8 Outsourcing Fire Safety Services

Outsourcing Fire Safety Services	**S.D** Freq (%)	**D** Freq (%)	**N** Freq (%)	**A** Freq (%)	**S.A** Freq (%)	X^2	**P>CHSQ**
Outsourcing fire safety services has averted significant contingencies	5 (6.5%)	3 (3.9%)	14 (18.2%)	40 (51.9%)	15 (19.5%)	56.442	<0.0001
There is modern firefighting equipment installed by outsourced firefighting vendors	3 (3.9%)	6 (7.8%)	16 (20.8%)	25 (32.5%)	27 (35.1%)	30.468	<0.0001
Staff have been trained on modern fire handling procedures	8 (10.4%)	6 (7.8%)	13 (16.9%)	28 (36.4%)	22 (28.6%)	22.805	<0.0001
Outsourcing fire safety services has improved on work safety environment	4 (5.2%)	6 (7.8%)	15 (19.5%)	29 (37.7%)	23 (29.9%)	29.948	<0.0001
Organization performance has improved ever since we started outsourcing fire safety services	2 (2.6%)	5 (6.5%)	23 (29.9%)	25 (32.5%)	22 (28.6%)	31.247	<0.0001
My organization has access to excellent talent from outsourcing fire safety that would not be available internally	8 (10.4%)	4 (5.2%)	18 (23.4%)	36 (46.8%)	11 (14.3%)	41.247	<0.0001

Key: SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SA=Strongly Agree, Freq= Frequency, %= Percentage.

Source: Research data (2016)

The findings in table 4.8 above show that a majority of 51.9% of the respondents (χ^2 =56.442, P<0.0001) agreed that outsourcing fire safety services averted significant contingencies in the organization this finding conforms with that of Hamel and Prahalad, (1994) who found out that, One of the most heavily outsourced functions by firms is fire safety - depending on the business, this can be a complex area and it’s only to be expected that the directors will require some help. Using an external fire safety consultant can mean that there’s one less thing for the directors to worry about. A majority of 35.1% (χ^2 =30.468, P<0.0001) strongly agreed that modern firefighting equipment has been installed by outsourced firefighting vendors.

Another finding from the study showed that a majority of 36.4% (χ^2 =22.805, P<0.0001) agreed that their staff had been trained on modern fire handling procedures, this conforms with one of the duties of fire safety vendors according to (Outsourcing fire safety what`s the personal risk 2016) which identified training and education of onsite employees and sub-contractors in basic firefighting and first aid. A high of 37.7% of the respondents (χ^2 =29.948, P<0.0001) agreed that ever since they practiced outsourcing of fire safety services, work safety environment has been achieved by the organization. Most of the respondents (32.5%, χ^2 =31.247, P<0.0001) agreed that organizational performance has improved ever since they started outsourcing fire safety services, this agrees with Ghodeswar and Vaidyanathan (2008) who said that revenues will be one of the reason firms decide to outsource.

In addition, 46.8% of the respondents (χ^2 =41.247, P<0.0001) agreed that their organization has access to excellent talent from outsourcing fire safety that would otherwise not be available internally, this also conforms with Ghodeswar and Vaidyanathan (2008) who found out that outsourcing is to achieve aggressive growth objectives by gaining increased market access, to leverage on the service provider’s best process, capacity and systems. Langlois (1990) also confirms this when he found out that for the sustainable competitive advantages, firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities. All the above response had chi square values that were significant.

4.3.5 Outsourcing Security services

Table 4.9 Outsourcing Security services

Outsourcing security Services	**S.D** **Freq (%)**	**D** **Freq (%)**	**N** **Freq (%)**	**A** **Freq (%)**	**S.A** **Freq (%)**	**X^2**	**P>CHSQ**
Attitude of clients towards security officers is excellent	3 (3.9%)	8 (10.4%)	21 (27.3%)	27 (35.1%)	18 (23.4%)	24.753	<0.0001
Through outsourcing of security services, cases of internal theft has reduced significantly	7 (9.1%)	4 (5.2%)	17 (22.1%)	21 (27.3%)	28 (36.4%)	25.533	<0.0001
Effective information delivery is maintained from the clients to the organization	2 (2.6%)	3 (3.9%)	27 (35.1%)	29 (37.7%)	16 (20.8%)	42.416	<0.0001
Presence of objective security officers has ensured smooth running of events in the firm	4 (5.2%)	10 (13.0%)	18 (23.4%)	28 (36.4%)	17 (22.1%)	21.247	<0.0001
Good security guard relations is maintained within the organization	2 (2.6%)	5 (6.5%)	23 (29.9%)	29 (37.7%)	18 (23.4%)	34.883	<0.0001
Organization performance has improved since we started outsourcing security services	4 (5.2%)	10 (13.0%)	19 (24.7%)	29 (37.7%)	15 (19.5%)	23.195	<0.0001

Key: SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SA=Strongly Agree, Freq= Frequency, %= Percentage.

Source: Research data (2016)

Table 4.9 shows that, a majority of 35.1% of the respondents (χ^2 =24.753, P<0.0001) agreed that the attitude of clients towards security officers to be excellent, this conforms with Harris (2008) who identified loyalty of outsourced officers towards the dealer to be one of the advantages of outsourcing, when an officer is loyal towards his dealer, he will treat the dealers customers well with respect. A majority of 36.4% (χ^2 =25.553, P<0.0001) strongly agreed that through outsourcing of security services, cases of internal theft has reduced significantly. A majority of 37.7% (χ^2 =42.416, P<0.0001) agreed that effective information delivery has been maintained from the clients to the organization, this specific finding did not agree with that of Harrison and Kelley, (2003) who said that, because a third party is involved, there may be a delay in communicating customer issues to the dealer.

A high of 36.4% of the respondents (χ^2 =21.247, $P<0.0001$) agreed that presence of objective security officers has ensured smooth running of events in the firm. According to the findings, greater number 37.7% of the respondents (χ^2 =34.883, $P<0.0001$) agreed that good security guard relations has been maintained within the organization, this confirms the creation of the agency relationship between client and vendor according to Blancero and Ellram (1997). Lastly, 37.7% (χ^2 =23.195, $P<0.0001$) agreed that organizational performance has improved ever since they started outsourcing security services this conforms with Gilley and Rasheed (2000) who argue that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing narrowly on things they do best. All the above response had chi square values that were significant.

4.3.6 Financial Performance Aspects

Table 4.10 Financial Performance Aspects

Outsourcing security Services	**S.D** Freq (%)	**D** Freq (%)	**N** Freq (%)	**A** Freq (%)	**S.A** Freq (%)	X^2	**P>CHSQ**
Outsourcing practices has led to financial effectiveness	3 (3.9%)	8 (10.4%)	12 (15.6%)	32 (41.6%)	22 (28.6%)	35.013	<0.0001
Outsourcing practices has led to increased productivity	3 (3.9%)	5 (6.5%)	15 (19.5%)	23 (29.9%)	31 (40.3%)	36.571	<0.0001
Organization profit has increased as a result of outsourcing practices	3 (3.9%)	9 (11.7%)	16 (20.8%)	20 (26.0%)	29 (37.7%)	26.052	<0.0001
Outsourcing practices has led to improved quality	4 (5.2%)	3 (3.9%)	14 (18.2%)	34 (44.2%)	22 (28.6%)	43.844	<0.0001
Outsourcing practices has resulted to continuous customer satisfaction	3 (3.9%)	3 (3.9%)	12 (15.6%)	35 (45.5%)	24 (31.2%)	50.468	<0.0001
The outsourcing practice has led to a decrease in operating costs	3 (3.9%)	10 (13.0%)	14 (18.2%)	34 (44.2%)	16 (20.8%)	34.494	<0.0001
Social responsibility and the firm's image has improved due to outsourcing	2 (2.6%)	2 (2.6%)	17 (22.1%)	32 (41.6%)	24 (31.2%)	46.182	<0.0001
Outsourcing has enabled faster response to customer demands	3 (3.9%)	5 (6.5%)	9 (11.7%)	39 (50.6%)	21 (27.3%)	57.87	<0.0001
The practice has enabled the organization concentrate on its core business	3 (3.9%)	7 (9.1%)	12 (15.6%)	30 (39.0%)	25 (32.5%)	35.143	<0.0001
The organization has as a result of outsourcing achieved use of modern technology in offering its services	6 (7.8%)	8 (10.4%)	7 (9.1%)	32 (41.6%)	24 (31.2%)	36.571	<0.0001

Key: SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SA=Strongly Agree, Freq= Frequency, %= Percentage. Source: Research data (2016)

Table 4.10 shows that, a majority of 41.6% of the respondents (χ^2 =35.013, P<0.0001) agreed that outsourcing practices led to financial effectiveness. A majority of 40.3% (χ^2 =36.571, P<0.0001) strongly agreed that outsourcing practices led to increased productivity. From the findings of this study, 37.7% strongly agreed (χ^2 =26.052, P<0.0001) that organization`s profits increased as a result of outsourcing practices. Outsourcing practice improved quality was agreed (χ^2 =43.844, P<0.0001) by a majority of 44.2%, this conforms with the findings of Kotabe and Helsen, (1998) who found out that the choice by firms to adopt BPO has been prompted by specific benefits accruing to include: reduced costs often associated with bureaucracies; reduced uncertainty; spreading risks by switching suppliers when market conditions demand; higher quality goods/services due to promotion of competition among outside suppliers; more cost effective technologies; enhanced learning; increased financial flexibility and speed of response and; greater efficiency all envisaged to lead to improved firm's performance.

A high of 45.5% of the respondents (χ^2 =50.468, P<0.0001) agreed that outsourcing practices resulted to continuous customer satisfaction. According to the findings, greater number of 44.2% of the respondents (χ^2 =34.494, P<0.0001) agreed that outsourcing practices has led to a decrease in operating cost, this confirms what Khan and Fitzgerald (2004) stated that to this effect, adoption of BPO has become the norm with outsourcing being viewed as the center of focus in different sectors due to its envisaged potential to reduce costs and enhance efficiency, Coase (1937) also confirms this when he found out that every company will expand as long as the company's activities can be performed cheaper in the company e.g. outsourcing the activities to external providers in the market.

41.6% who were the majority agreed that (χ^2 =46.182, P<0.0001) social responsibility and firms image has improved due to outsourcing practices this conforms with the views of some scholars who say that BPO decisions are long-term relationships which are neither one-off nor pure market in form and which may result to positive image of a firm. Most of the respondent (50.6%) agreed (χ^2 =57.87, P<0.0001) that outsourcing enabled faster response to customer demands, this conforms to the findings of Bosire (2011) who researched on the Impact of outsourcing on lead time and customer service among supermarkets in Nairobi. He found out that outsourcing of services in supermarkets has a direct effect with the lead times of product delivery and that among those supermarkets that have outsourced procurement of products from the suppliers, time taken to deliver the same products to their warehouses has tremendously reduced. A high of 39% of the respondents agreed (χ^2=35.143, P<0.0001) that outsourcing practice enabled the organization concentrate on its core business, this finding agrees to that of Thompson, (2007) who stated that the support for BPO's positive impact on firm performance is anchored on the argument that, one of the main reasons for outsourcing is to enable firms heighten their strategic focus hence concentrate full energies and resources on value chain activities that are at the core of their strategies and for which they can create unique values. Also in support of the above, Gilley and Rasheed (2000) argue that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing narrowly on things they do best. Lastly, 41.6% agreed (χ^2=36.571, P<0.0001) that the organization has as a result of outsourcing achieved use of modern technology in offering its services. All the above response had chi square values that were significant this also conforms to the findings of Kotabe and Helsen (1998) above.

4.4 Inferential Statistics

This section presents the outcome of the correlation and regression analysis conducted so as to evaluate the nature of the relationship between the dependent and independent variables.

4.4.1 Correlation Analysis

Table 4.11 shows the results of Pearson's correlation analysis which was performed to determine the existence, significance and degree of association of the variables. Correlation coefficient ("r") is the main result of a correlation analysis. It ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. If r is positive, it means that as one variable gets bigger the other gets bigger. If r is negative it means that as one gets bigger, the other gets smaller often called an "inverse" correlation.

Table 4.11 Correlation Analysis

Correlations						
		Legal	Fumigation	Fire safety	Security	Performance
Legal	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	77				
Fumigation	Pearson Correlation	.803**	1			
	Sig. (2-tailed)	.000				
	N	77	77			
Fire safety	Pearson Correlation	.670**	.713**	1		
	Sig. (2-tailed)	.000	.000			
	N	77	77	77		
Security	Pearson Correlation	.691**	.714**	.752**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	77	77	77	77	
Performance	Pearson Correlation	.675**	.528**	.742**	.645**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	77	77	77	77	77

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

Source: Research data (2016)

The correlation results shown in table 4.11 above revealed that Outsourcing legal services has a significant positive effect on financial performance of the selected firms in Nakuru County (r =0.675, α = 0.01). The study also determined whether outsourcing fumigation services had any significant effects on the financial performance of selected firms in Nakuru County. The correlation results showed a positive significant relationship (r = 0.528, α = 0.01). The study also wanted to determine whether outsourcing fire safety services had a significant effect on the financial performance of selected firms in Nakuru County and found a strong positive significant relationship (r = 0.742, α = 0.01). Outsourcing of security services also showed a strong positive correlation with financial performance of selected firms in Nakuru County (r = 0.645, α = 0.01).

The results therefore indicated that Outsourcing fire safety services exhibited the strongest association with financial performance, while outsourcing of fumigation services showing the weakest correlation.

4.4.2 Regression Analysis

Table 4.12 shows the results of the multiple regression analysis which was utilized to determine the significance of the relationship between variables (Dependent and Independent)

Table 4.12 Multiple Linear Regression Analysis Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807[a]	.652	.633	5.33860

a. Predictors: (Constant), Security, Legal, Fire safety, Fumigation
Source: Research data (2016)

R square of 0.652 was found meaning that 65.2% of the changes in financial performance can be explained by the four independent variables that were, outsourcing legal services, outsourcing fumigation services, outsourcing fire safety services and outsourcing security services.

4.4.3 Analysis of Variance (ANOVA) and Regression

Results of the Anova performed on the independent and dependent variables are summarized in table 4.13 while the regression analysis results are presented on table 4.14.

Table 4.13 ANOVA Table

ANOVA[a]					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3844.653	4	961.163	33.724	.000[b]
Residual	2052.049	72	28.501		
Total	5896.701	76			

a. Dependent Variable: Performance

b. Predictors: (Constant), Security, Legal, Fire safety, Fumigation

Source: Research data (2016)

The Anova results shown in table 4.13 indicated an overall significance of 0.000

Table 4.14 Multiple Linear Regression Analysis Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	Constant	5.580	3.186		1.751	.084		
	Legal	.804	.196	.502	4.104	.000	.323	3.093
	Fumigation	-.686	.232	-.383	-2.959	.004	.288	3.471
	Fire safety	1.006	.202	.573	4.993	.000	.366	2.730
	Security	.215	.179	.140	1.201	.234	.355	2.814

a. Dependent Variable: Performance $\alpha = 0.05$

Source: Research data (2016)

The findings from table 4.14 above proved significance between outsourcing legal services ($p = 0.000$) and Financial performance of the selected firms in Nakuru County. The findings also indicated a significance in outsourcing fumigation services ($p = 0.004$), outsourcing fire safety services ($p = 0.000$) and financial performance of the selected firms in Nakuru County. Outsourcing security services however turned out insignificant ($p = 0.234$)

The equation is $Y = 5.580 + 0.804x_1 - 0.686x_2 + 1.006x_3 + 0.215x_4 + e$ that is; financial performance = 5.580 + 0.804(outsourcing legal services) - 0.686(outsourcing fumigation services) + 1.006(outsourcing fire safety services) + 0.215(outsourcing security services) + an error term of 3.186. implying that if outsourcing of legal services increases by one unit, then financial performance will increase by 0.804 units, if outsourcing of fumigation services increases by one unit, then financial performance will go down by 0.686 units, if outsourcing of fire safety services increases by one unit then financial performance will go up by 1.006 units and lastly if outsourcing of security services went up by 1 unit, then financial performance will increase by 0.215 units. The standard error (3.186), being an estimate of the standard deviation of the coefficient, is a random variable with a mean of zero and which captured the variables that could not be quantified.

The independent variable which was most important in the financial performance of the selected firms was also determined. This was obtained by the beta value whereupon the results in table 4.14 identified outsourcing fire safety services as the most important variable of the study followed by outsourcing legal services then outsourcing security services and lastly outsourcing fumigation services in that order. The beta value for these variables are 0.573, 0.502, 0.140 and -0.383 indicate that dependent variables would change by a corresponding number of standard deviation when the respective independent variable changed by one standard deviation.

4.5 Hypotheses Testing

In this section, the specific objective to the research is stated, its hypotheses tested and their implications are discussed the alpha value was ($\alpha = 0.01$)

H_{01}: Outsourcing of legal services has no significant effect on financial performance of the selected firms in Nakuru County.

According to the regression results, Outsourcing legal services significantly influenced financial performance of the selected firms in Nakuru County ($\beta = 0.804$; p value = 0.000). This means we reject the null hypotheses. This implies that when firms decide to outsource legal services, their financial performance will improve. These finding concur with those by Harmon, (2008) who found out that the benefits of legal services outsourcing used to be labor costs arbitrage but that has changed over time as outsourcing of legal services continue to be of excellent quality. This is partly because service providers not only specialize in the process driven work but also in work higher up the value chain where real legal advice is delivered. In addition, they fortify their service by contributing innovative value-adding approaches to other parts of the business.

H_{01}: Outsourcing of Fumigation services has no significant effect on financial performance of selected firms in Nakuru County.

According to the regression results, Outsourcing fumigation services significantly influenced financial performance of the selected firms in Nakuru County ($\beta = -.686$; p value = 0.004). This means we reject the null hypotheses. This implies that when firms decide to outsource fumigation services, their financial performance will decrease. These finding is inconsistent with those of Azurin, Shahin and Sulaiman, (2013) who found out that if this function was outsourced to a vendor, they may be able to use the well-known brand name of the outsourcing vendor which acts partly as a marketing tool, when customers learn that a certain hotel has its fumigation service done by a highly performing company, their confidence and loyalty increases to that particular hotel. This in turn increases the revenue and improves the hotel`s financial performance. Why has earlier research showed a positive linear effect of outsourcing fumigation services yet the findings of this study states otherwise? In the view of the researcher, there are three explanations to this; theoretically, authors have usually focused on the benefits of outsourcing and usually done so for one sector of the economy. Rarely have they tried to integrate more than one sector in their work. Since the outsource ability of activities varies wildly, the outcome in terms of how outsourcing affects performance is simply a function of the activity studied and the context in which it is studied. For instance, if one were to study outsourcing of CEOs, to the extent this exists, it would surely tend to decrease performance. So a focus on a wider range of activities will influence what outsourcing-performance relation is observed. Outsourcing decision-making therefore at least partly takes place at a more aggregate level of analysis. (Kotabe & Michael, 2009)

Another reason is the methodological limitation, that is; most studies focus on a single moment in time. The effects of outsourcing, however, may not be immediate. This problem relates to the nature of the dependent variable measuring performance. Much earlier research on this topic in this study relied on perceptual data collected through surveys. Although surveys allow for more degrees of freedom in gathering data, responses may be subject to common method bias and low response rates. Using questionnaires as a form of primary data collection can therefore provide a fruitful complement.

Another reason comes from the level of optimality applied, in their article, Kotabe and Michael (2009) argued that there is a negative curvilinear relationship between a firm's level of outsourcing services and its performance. What follows from this is that across all of firm's activities, it's the degree of outsourcing that has a negatively curvilinearly related to its performance. In a linear test of outsourcing and performance they would therefore find a positive relationship between outsourcing and performance when firms have not yet reached their optimal point, a negative relationship when firms have gone beyond their optimal point or no relationship when a firm is very close to its optimal point.

H_{01}: Outsourcing of Fire safety services has no significant effect on financial performance of selected firms in Nakuru County.

Regression results reveal that, Outsourcing fire safety services significantly influenced financial performance of the selected firms in Nakuru County ($\beta = 1.006$; p value = 0.000). The implication of this is that firms must consider outsourcing fire safety services in order to boost their financial performance. Therefore we reject the null hypotheses. These finding concur with those by Hamel & Prahalad, (1994) who said that embarking to outsourcing fire safety services also will expand capacity to design, test and build new products and service, to stretch its limit in handling the increased volume of business and to manage demand efficiently through outsider's automation, process maturity and the latest technology. It is also to focus on enablers of business growth and strategies to fulfill them.

H_{01}: Outsourcing of security management practices has no significant effect on financial performance of selected firms in Nakuru County.

Finally, Regression results reveal that, Outsourcing security services had no significant effect on financial performance of the selected firms in Nakuru County ($\beta = 0.215$; p value = 0.234). This means that outsourcing security services had no effect on financial performance. Therefore we accept the null hypotheses. These finding agree with those of Harrison and Kelley, (2003), who found out that outsourcing security services provides a Potential for unscrupulous subcontractor to provide confidential information to competitors or steal business, Contract between the dealer and subcontractor is needed; legitimate fees will be spent if a lawyer is appointed to write up an agreement because an external party is involved, delays in communicating customer issues to the dealer may be experienced. In his contribution, Thompson Jr. (2007) concerned over BPO benefits point out that, the manner in which BPO decisions are generated, structured and implemented play a major role in determining its impact on firm performance and that not all outsourcing initiatives are strategically calculated hence weak evidence on BPO's positive impact on firm performance.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions, and recommendations arising out of the research findings in chapter four and suggests areas for further study.

5.2 Summaries of Major Findings

The study has generated several findings of which are in line with existing literature and previous research findings. The main objective of this study was to ascertain the effects of BPO as a strategic tool on financial performance of selected Organizations. The specific objectives were; To establish the effect of outsourcing legal services on financial performance of selected firms in Nakuru County, to find out the effect of outsourcing fumigation services on financial performance of selected firms in Nakuru County, to assess the effect of outsourcing fire safety services on financial performance of selected firms in Nakuru County and to evaluate the effect of outsourcing security services on financial performance of selected firms in Nakuru County.

The findings show that all variable combined can explain 65.2% of the variations in the selected firm`s financial performance in Nakuru County while 34.8% can be attributed to moderating variables and other factors not explained by the variables.

5.2.1 Effect of outsourcing legal services on financial performance of selected firms in Nakuru County.

The first objective of this study was to establish the effect of outsourcing legal services on financial performance of selected firms in Nakuru County; regression results revealed that this was the second major influencer in the regression model (0.502), and had the strongest positive correlation effect on financial performance of the selected firms ($r = 0.675$, $\alpha = 0.01$). This supported the notion that outsourcing legal services has an effect on financial performance thus rejecting the null hypotheses.

5.2.2 Effect of outsourcing fumigation services on financial performance of selected firms in Nakuru County.

Outsourcing fumigation services effect on financial performance was the second objective whereby the findings found this to be false. This finding contradicted with those of Azurin, Shahin and Sulaiman, (2013) who found out that; if a hotel function was outsourced to a vendor, they may be able to use the well-known brand name of the outsourcing vendor which acts partly as a marketing tool, when customers learn that a certain hotel has its fumigation service done by a highly performing company, their confidence and loyalty increases to that particular hotel. This in turn increases the revenue and improves the hotel`s financial performance. Regression results revealed that this was the least major influencer in the regression model (-0.383), and had the least positive correlation effect among the variables on financial performance of the selected firms ($r = 0.528$, $\alpha = 0.01$). This finding was however significant with a p value of 0.004 thus we reject the null hypotheses.

5.3.3 Effect of outsourcing fire safety services on financial performance of selected firms in Nakuru County.

The third objective sought to assess the effect of outsourcing fire safety services on financial performance of selected firms in Nakuru County, the finding found out that indeed outsourcing fire safety services had a significant effect on financial performance with a p value of 0.000. Allowing others to worry about certain aspects of your business so that you can concentrate on your core business will enable you perform better, as Hamel and Prahalad, (1994) puts it; One of the most heavily outsourced functions by firms is fire safety - depending on the business, this can be a complex area and it’s only to be expected that the directors will require some help. Using an external fire safety consultant can mean that there’s one less thing for the directors to worry about. Regression results revealed that this was the major influencer in the regression model (0.573), and had the highest positive correlation effect among the variables on financial performance of the selected firms ($r = 0.742$, $\alpha = 0.01$). The finding turned out significant with a p value of 0.000 thus we reject the null hypotheses.

5.3.4 Effect of outsourcing security services on financial performance of selected firms in Nakuru County.

Lastly the study sought to evaluate the effect of outsourcing security services on financial performance of selected firms in Nakuru County, from the findings we realize that there is no much effect entirely as the significance level ($\beta = 0.140$; p value $= 0.234$) turned out to be greater than the error term. Here, we accept the null hypotheses which stated that outsourcing of security management services practices has no significant effect on financial performance of selected firms in Nakuru County. These finding agree with those of Harrison and Kelley, (2003). Who concluded that security services outsourcing provides a possibility for dishonest contractor to give out personal report to opponents and rip off corporates, he also suggested that an agreement between the two parties is required; Legal expenses will be incurred if counsel is appointed to draw up contract.

5.3 Conclusions

The study has found out that outsourcing legal services and fire safety services to be having a significant effect on financial performance of the selected firms in Nakuru County, this finding is in agreement with those of Mulama, Chirchir and Magutu (2012) who also did a study on Business process outsourcing but were comparing business process outsourcing practices and performance of large manufacturing firms in Nairobi. They established that business process outsourcing practices being adopted by the large manufacturing firms resulted to increased productivity, organizational effectiveness, increased profits, continuous improvement and improved quality. Outsourcing security services turned out to have an insignificant effect on the financial performance of those selected firms. Hence the study concludes that these services should be outsourced. Outsourcing of fumigation services turned out to have a negative effect on financial performance with a significant value.

5.4 Recommendations

There is need to promote the use of outsourcing in firms in Kenya not only limited to the ones listed in this study but also expand to other forms of outsourcing, this would guarantee them competitive advantage over other firms in the competitive environment of today and at the same time enable them achieve the desired objectives.

This will also be in an effort to meet the vision 2030 whereby outsourcing will play a key role and with the construction of the only Silicon Valley in Africa already underway that is the Konza city which will be a BPO hub, the government ought to formulate policies to guide the business processing outsourcing sector so as to ensure that firms attain maximum potential in delivering their service to the citizens of Kenya and to those of the world.

5.5 Suggestion for Further Research

The study was limited to Nakuru County and covered only two sectors (hotels and manufacturing firms), the researcher therefore suggest that the same study be replicated across the Country and cover wider sectors of the economy. The study also picked but a few forms of Business process outsourcing, there exist a vast pool of services firms can outsource and from the findings of this study, more firms will consider indulging in outsourcing processes thus providing a wider target population for future researchers.

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APPENDICES

APPENDIX I: Letter of Introduction

The director,

……………………..,

P.O Box …………..,

NAKURU KENYA.

Dear Sir/Madam,

RE: Authorization to Conduct Research

I am a student at Kabarak University undertaking a study on **effect of business process outsourcing as a strategic tool on financial performance of selected firms in Nakuru County.** A research report is a university requirement for the award of MBA degree.

This questionnaire is to be filled in by a member of the top management because they are viewed as officers by the virtue of their positions are well versed with organization strategy formulation and implementation. The information given will be confidential and strictly used for academic purpose; therefore I humbly request your permission to undertake the research in your organization.

Yours sincerely,

Kaiyoni Marrion Oledama

APPENDIX II: Questionnaire

Please give answers in the spaces provided and tick (□) in the box that matches your response to the Questions Where Applicable.

Part A: Company's Profile

1. Name of the company (Optional): …………………………………………………………..

2. What is your designation at the organization…………………………………………………

3. Length of continuous service with the organization?

   a) Less than five years ( )

   b) 5-10 years ( )

   c) Over 10 years ( )

4. For how long has your company been in operation?

   a) Under 5 years ( )

   b) 6 – 10 years ( )

   c) 11 – 15 years ( )

   d) Over 16 years ( )

5.) Do you operate in other countries outside Kenya? Yes ( ) No ( )

If yes, please give the countries that you operate in and state whether they practice business process outsourcing……………………………………………..……………………………

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PART B: Outsourcing Practices and Financial Performance of Firms

8.) Please indicate the extent to which your organization financial performance has been improved by outsourcing the following practices?

Use the scale of: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

Outsourcing Practices	1	2	3	4	5
Outsourcing of Legal Services					
1. In general, we feel well represented by our outsourced lawyer					
2. Our outsourced lawyer goes an extra mile to make sure our firm gets what it needs in the legal field					
3. Outsourcing legal services enables our firm attain expertise that we couldn't get internally					
4. There are no unnecessary delays in the firm`s legal process after outsourcing legal services					
5. Outsourcing of legal services has reduced on unnecessary intimidation of staff from authorities					
6. Outsourcing legal services has allowed our organization to choose from the best course of action.					
7. Outsourcing legal services has reduced organization legal suits significantly					
Outsourcing Fumigation Services					
1. Outsourcing fumigation services has saved the organization from losing its customers					
2. There is improved confidence from customers knowing that an expert					

handles fumigation services					
3. There are less damages to commodities due to expert handling of fumigation services					
4. High quality pest control services has been achieved by the organization					
5. Staff welfare has improved due to implementation of safety procedures					
6. There is adoption of modern infrastructure like use of effective non pollutant chemicals					
Outsourcing Fire Safety services					
1. Outsourcing fire safety services has averted significant contingencies					
2. There is modern firefighting equipment installed by outsourced firefighting vendors					
3. Staff have been trained on modern fire handling procedures					
4. Outsourcing fire safety services has improved on work safety environment					
5. Organization performance has improved ever since we started outsourcing fire safety services					
6. My organization has access to excellent talent from outsourcing fire safety that would not be available internally					
Outsourcing Security services					
1. Attitude of clients towards security officers is excellent					
2. Through outsourcing of security services, cases of internal theft has reduced significantly					
3. Effective information delivery is maintained from the clients to the organization					

4. Presence of objective security officers has ensured smooth running of events in the firm					
5. Good security guard relations is maintained within the organization					
6. Organization performance has improved since we started outsourcing security services					

10.) Kindly mention any other business outsourcing practice adapted by your organization

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11.) What effect does outsourcing practices being used by the Hotel industry and manufacturing firms have on the following performance aspects? Use the scale of: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

Financial Performance Aspects	1	2	3	4	5
1. Outsourcing practices has led to financial effectiveness					
2. Outsourcing practices has led to increased productivity					
3. Organization profit has increased as a result of outsourcing practices					
4. Outsourcing practices has led to improved quality					
5. Outsourcing practices has resulted to continuous customer					

satisfaction					
6. The quality of work life (motivational level of personnel) has been positively affected by outsourcing practices					
7. The outsourcing practice has led to a decrease in operating costs					
8. Social responsibility and the firm's image has improved due to outsourcing					
9. Outsourcing has enabled faster response to customer demands					
10. The practice has enabled the organization concentrate on its core business					
11. The organization has as a result of outsourcing achieved use of modern technology in offering its services					

APPENDIX III:

Hotels in Nakuru County That Outsource The Combination of Services Listed in the Study`s Objectives

Abbey Resorts Ltd

Ack Imani Guest House

Apex Resort

Aqua Lodge

Aspen Hotel

Avenue Suites

Blue Bay Hotel Ltd

Bontana Hotel

Capital Hill Lodge

Carravan Hotel

Chester Hotel

Choices Highway Lodge

Comfort Hotel

Cranes Hotel

Crater Lake Camp &Game Sanctuary

Cray Fish Camp

Eagle Palace Hotel

Emboita Hotels Ltd

Enashipai Resort

Fina Gardens Resort

Garden Park Hotel

Geranium Gardens

Golden Palace Hotel

Graceland Hotel

Harmony Guest House

Hillcourt Resort &Spa

Hippo Boat And Safaris Resort

Lake Naivasha Panorama Hotel

Lake Naivasha Resort

Lake Naivasha Sawela Lodge

Lake Naivasha Simba Lodge

Lake Naivasha Sopa

Lodge

Lake Nakuru Flamingo

Lakeside Tourist Lodge

Liwa Guest House

Paranai Place At Valley Breeze

Pyramid Hotel

Quilar Court Hotel

Rift Valley Sports Club

Rocyard Motel

Royal Palm Hotel

Shepherd Inn Hotel

Southlake Junction Rocky Resort

Summer Lodge

Sundowner Lodge

Sweet Banana Holdings Ltd

Taphe Guest House

The Legacy Hotel &Suites Ltd

Viewers Park Hotel

Wambuku Hotel

Lake Naivasha Country Club

Lake Naivasha Crescent Camp

Lake Elementaita Serena

Malewa Garden Hotel
Malewa Wildlife Lodge
Masada Hotel
Merica Hotel
Midlands Hotel
Milele Resort
Milimani Suites
Mt.Longonot Lodge
Mwewe Camp
Naivasha Countyr Hotel
Naivasha Kongoni Lodge
Nakuru Milimani Guest House
Nuru Palace Hotel
Hotel Bison
Hotel Cathay

Mau View Suites
Mbweha Camp
Hotel Indica
Hotel Kunste
Hotel Marvin
Hotel Royal Spring
Hotel Scarlet
Hotel Waterbuck
Jarika County Lodge
Jaza Naivasha Resort
Kenvash Hotel
Kivu Resort
La Belle Inn
Hotel Citymax
Hotel Freci

Source: Tourism Regulatory Authority, 2015

APPENDIX IV:

Manufacturing Firms in Nakuru County That Outsource The Combination of Services Listed in the Study`s Objectives

1. Njoro canning factory(kenya) ltd
2. Bedi investments limited
3. Bunda cakes &feeds ltd
4. Comfort the children international
5. Ganglong international company ltd
6. Happy cow ltd
7. Kenya seeds company ltd
8. Maridadi flowers ltd
9. Mega spin ltd
10. MEA ltd
11. Spin knit ltd
12. Milling Cooperation
13. Valley confectionery ltd
14. Royal Industries

Source: Kenya Association of Manufacturers, 2014

APPENDIX V: Pre Study Worksheet

Kindly tick against the name of your company the kind of outsourcing practice you outsource.

Company name	Transport services	Warehousing services	Security services	Information technology services	Human resource services	Legal services	R & D services	Health care

Company name	Cleaning services	Fire safety services	Sales and marketing services	Technical specialist and maintenance services	Auditing services	Stationary services	Fumigation services	Any other services