

**ANALYSIS OF THE EFFECTS OF OUTSOURCING ON ORGANIZATION  
PRODUCTIVITY IN SELECTED PARASTATALS IN KENYA**

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**This project is submitted to the graduate school in partial fulfillment for the  
requirements of the Master's degree in business administration in  
Strategic Management of Kabarak University**

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### DECLARATION AND APPROVAL

This thesis is my original work and has not been presented for a degree or any other awards in this or any other university.

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### RECOMMENDATION

This proposal has been submitted with my approval as the candidate's supervisors.

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## **DEDICATION**

I dedicate this thesis to my loving parents for their moral and financial support, together with Mr. Mathews and Dr. Mungai for equipping me with theoretical knowledge and encouragement on how to write this thesis.

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## **LIST OF ACRONYMS**

ATM	Automated Teller Machine
BBC	British Broadcasting Corporation
BPO	Business Processing Outsourcing
CIPD	Chartered Institute of Personnel and Development
HR	Human resource
HRM	Human resource management
ICT	Information and Ccommunications Technology
IAOP	International Association of Outsourcing Professionals
IT	Information Technology
NHIF	National Housing Insurance Fund
RPO	Recruitment Process Outsourcing
U.K	United Kingdom

## ABSTRACT

Outsourcing has become an important business strategy because it enables businesses to reduce and control operating costs, to improve company focus, to gain access to world class capability and to free internal resources for other purposes. Outsourcing has been used as part of the new public management agenda with the aim of increasing efficiency and decreasing costs. Consequently, its effects on productivity remains a factor to be considered by management in decision making. The purpose of this study was to establish the effect of outsourcing on employee productivity in selected parastatals. The research objectives were to establish the forms of outsourcing used in selected parastatals in Kenya, to find out the effect of outsourcing on operational cost, to determine the effect of outsourcing on employee productivity and to establish the effect of outsourcing on innovation in the selected parastatals. A descriptive research design was adopted in this study. Simple random sampling was used to select questionnaire respondents while purposive sampling was used to select interview respondents. Quantitative data resulting from the questionnaire were analyzed using Statistical Package for Social Sciences (SPSS) in the selection of respondents and presented in table and figures while qualitative data was analyzed using themes and presented in form of narratives. From the findings, this study found out that contracting out was the most popular form of outsourcing used in parastatals. In addition, security, cleaning, refuse disposal, and training were the main outsourced services in parastatals. Further, outsourcing had effects on operational costs, innovation and productivity. Its effects on operational cost was through cost saving, reducing operational cost and improved resources management which was significant while its effects on innovation and productivity were found to be insignificant. From the findings, this study recommends the assessment of outsourcing modes and promoting the adoption of other forms of outsourcing in parastatals. Coming up with employee motivation techniques and proper communication on outsourced services were also recommended.

**Keyword: outsourcing, productivity, innovation, operational costs**

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. According to Elmuti and Kathawala (2000), outsourcing is defined as a long term, result oriented relationship with an external service provider for activities traditionally performed within the organization. On the other hand, McIvor (2010) defines it the redefinition of an organization around its core competencies and is a long-term exercise done to concentrate and improve one's core competencies and skills, for instance patient care, medical education and research, cleaning services, catering, grounds maintenance services and at the same time, leverage external skills and resources to reduce costs and sustain levels of productivity without compromising on quality.

McIvor (2010) maintains that the world has embraced the phenomenon of outsourcing and companies have adopted this principle to help them expand into other markets. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Oshri, Kotlarsky, &Willcocks, 2011). Elmuti and Kathawala (2000) argue that enlisting private companies to deliver a wide array of products and services is now a common and accepted practice. Elmuti and Kathawala (2000) add that as organizations and institutions search for ways to grow and maintain their competitive edge, outsourcing has emerged as a dominant organizational strategy for achieving those goals.

It is argued that as a result of outsourcing, firms orientations toward internal actions gives way to greater dependence on external service providers (Oshri, Kotlarsky, &Willcocks, 2011). Therefore, outsourcing is generally the use of external agents to perform one or more organizational activities. The review of the labour outsourcing suggests a number of reasons why firms may use outsourced labor services and includes: cost efficiency, gaining outside expertise, greater financial flexibility through reduced overheads, need to focus on core activities, outsourcing allows firms greater control over the amount of time they would have used to employ or recruit workers, actual or perceived risks of recruiting and laying off some staff are transferred to either labour hire agency or the worker (Contractor, Kumar, Kundu, & Pedersen, 2010; Elmuti, 2003; McIvor, 2010). Aubert, Baurivage, Creatoue, and Rivard (2008) and Ulrich, Brockbank, Johnson, Sandholtz, and Younger (2008) observe that in Information Technology (IT) concept, outsourcing is the significant contribution by external

vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organization.

According to Contractor et al., (2010), outsourcing is considered the best management strategy by vast majority of companies. Contractor et al., (2010) argue that it is no longer sensible for companies to stick to the traditional forms of expansion, that is, hiring of more employees and building more facilities when they can simply contract services to another company at a cheaper cost. According to International Monetary Fund (IMF) and Kenya National Bureau of Statistics (KNBS) survey, Multinational Companies (MNCs) and community based corporations outsource most of their back office operations (KNBS, 2009). An example is the outsourcing of medical services by National Housing Insurance Fund (NHIF) to Amini Company allowed the medical schemes to focus on their core activities (KNBS, 2009). The medical insurance companies will be able to focus on new products development and recruitment of new clients instead of administering medical claims (KNBS, 2009). Institutions such as Amini Company, run their own medical schemes have opportunities to outsource the medical claims activity and redeploy resources to their core business areas.

Another example is G4S which offers a wide range of customer needs, including coin and cash management and transportation, Automated Teller Machine (ATM) replenishment and outsourced ATM management for financial institutions and retailers, remote surveillance, access control systems, manned security, Fire safety and protection solutions, response services, secure data solutions and outsourced mailroom services (G4S, 2013). On the other hand, Supercare Company human resources department takes care of placements, attendance, discipline and payment while the client oversees the performance of the assigned daily tasks. Supercare Company takes responsibility for the client's entire production and staffing requirements. In this case, employees report to the management structure recruited and installed by our labour outsourcing division. They report directly to the management structures of the client, facilitating direct integration with permanent employees while offering the flexibility of using outsourced labour only when required (G4s, 2013). Other Kenyan cases include outsourcing of loading workers at Kenya Breweries (loading section) from the Career Directions Limited company.

Irungu (2012) observes that since the year 2003, the Information and Communications Technology (ICT) sector in Kenya has grown drastically such as mobile phone usage has

increased by more than 15 million subscribers in the past seven years. Irungu (2012) notes that over five million of these subscribers have acquired Internet enabled handsets which make it easy for them to transact business via the worldwide web. The number of people with access to the Internet is growing exponentially. Moreover, mobile phone companies (there are currently four service providers) are expanding their customer care and call center capacities which are entirely outsourced. Therefore their contribution to the growth of Business Processing Outsourcing (BPO) cannot be under valued (Irungu, 2012). Consequently, Access Kenya Group outsource IT service offers customers an entirely new and highly effective concept in the management of IT (Wahome, 2008). Outsource IT service will give an organisation an advanced, technical and functional edge on the competition with the cost reduction factor. This is because it is affordable, reliable and offers exceptional service that provides security policies which are the core concern today and will inevitably boost the future shape of your business (Wahome, 2008).

Jansen and Stonecash (2004) pointing out that there are numerous outsourcing success stories in Kenya, cites Osborne and Gaebler (1992) and Kettl (2000) who advocate for outsourcing. Osborne and Gaebler (1992) and Kettl (2000) claim that it is a powerful policy instrument for reducing public expenditure and improving the performance of government business enterprises because of the high-powered incentives provided by the discipline of the capital market. Moreover, it is often argued that outsourcing improves efficiency because it introduces competition into the provision of public services and because private firms are relatively free of political interference (Jansen & Stonecash, 2004). This study examines the effect of outsourcing on Kenya's Parastatals.

## **1.2 Statement of the Problem**

Outsourcing is due to the difficulties experienced services in the flow and cost of goods and services in an organization. The three main causes of the problems include a lack of specialist skills, poor quality applicants and pay inflexibility, all of which are particularly acute in the public sector.

Aldelsberger, Kinshuk. Pawloski, and Sampson (2008) maintain that organizations resort to outsourcing mainly because it is the general trend without assessing the cost benefit analysis. Parastatals and government institutions therefore seem to blindly embrace the practice of outsourcing without a critical analysis of the effect of the same simply because it is working elsewhere hence this study tries to establish how the factor affects productivity. The

prevailing trends among institution products on high labour turnover ,underperformance of employees on job and lack of motivation. and innovation at work calls for a new way of getting competent employees to provide services

The pressure of hiring and maintaining high skilled human resource, an ever evolving threat landscape, the need for trimming capital expenditure and concentrating on their core business have motivated the trend in outsourcing. This study is to establish the effects of outsourcing on corporations with a view to making recommendations on how it can be effectively implemented and/or its effects mitigated.

### **1.3 Objectives of the study**

#### **1.3.1 General Objective**

The general objective of the study was to analyse of employee perceptions of effects of outsourcing on organizational productivity on selected parastatals, Nairobi county.

#### **1.3.2 Specific Objectives**

1. To establish types of outsourcing used in selected parastatals in Kenya.
2. To establish the effects of outsourcing on operational cost in selected parastatals in Kenya.
3. To examine the influence of outsourcing on employee productivity in selected parastatals in Kenya.
4. To establish the effects of outsourcing of services on employees innovations in selected parastatals in Kenya.

### **1.4 Research Questions**

1. What are the types of outsourcing used in selected parastatals in Kenya?
2. How does outsourcing affect operational costs in selected parastatals in Kenya?
3. To what extent does outsourcing influence employee productivity in selected parastatals in Kenya?
4. How do outsourcing affect employee innovations in the selected firms in selected parastatals in Kenya?

### **1.5 Significance of the Study**

This study highlighted the types of outsourcing, and its effect on operational cost, productivity and innovation. The results of this study would help management make policy decisions related to outsourcing in order to boost productivity and improve service delivery. It is due to the ready and available demand for outsourcing services that guarantee employment. With good adoption of outsourcing other institutions and organizations would want to know the effect of outsourcing in organizational productivity in selected Kenya's parastatals and therefore adopt the same method in acquisition of labor force.

### **1.6 Scope of the Study**

The research focused on four Nairobi county firms, two each from private and public sector. These four companies were selected on basis of proximity to the researcher place of work and because of time essence and convenience. It covered all the employees in these companies. The study analyzes data collected from the four companies during the data collection period in October 2013. These companies were representative sample of the population because they handle the same business service delivery to Kenyans.

### **1.7 Limitations of the Study**

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or the organization. Some respondents even turned down the request to fill questionnaire. To overcome this challenge, the researcher introduced himself, explained the purpose of the study which was purely academic and assured the respondents of the confidentiality of information given.

While the study only concentrated on the selected firms of study, securing the employees precious time considering their busy working schedules was a major challenge. Proper arrangements with employees were to be made so that employees avail themselves for the study off-time hours as well as motivating the employees on the value of the study. The research required exercise of utmost patience and care in order to acquire sufficient data from respondents. In line with this, questionnaires were dropped and picked on a later date.

## DEFINITIONS OF OPERATIONAL TERMS

### **Employee**

A person who works in someone else's business for wages paid by that business (Wright et al., 2011).

### **Firm**

An unincorporated or incorporated business enterprise. In this study, firm usually refers to a client firm, that is, the end user of a labor hire worker (Lawler & Boudreau, 2012).

### **Parastatal**

It is a body corporate established by or under an Act of Parliament or other written law with whole or the controlling majority of the shares or stock of which is owned by the Government or by another state corporation (Njiru, 2007). It is also referred to as state corporation.

### **Outsourcing**

"The procurement of goods or services from sources that are external to the organization" (Lankford & Parsa, 1999 cited in Schienederjans et al., 2005, p.3).

### **Client firm**

Organization or business entity that seeks to outsource their internal business activities (Schienederjans et al., 2005). In this context the client firm refers to the selected government parastatals.

### **Outsource provider**

The firm providing outsourcing services (Schienederjans, Schienederjans, & Schienederjans, 2005). In this study third party and service provider will be used interchangeably to refer to firms providing outsourcing services to the selected parastatals.

### **Innovation**

Take information from diverse sources and find patterns in that information which lead them to solve problems in a new way (Lawler & Boudreau, 2012).

### **Performance**

The general employee behavior that is formally evaluated that is part of employees' duties and responsibilities or expectations (Shields, 2007).



**Productivity**

It is a measure of performance that takes into account the cost of achieving a given performance level (Lussier, 2008).

**Organization productivity**

The capacity of an organization, institution, or business to produce desired results with a minimum expenditure of energy, time, money, personnel, and materials (Shields, 2007; Lawler & Boudreau, 2012).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents literature related to the area of study by discussion outsourcing, outsourcing and operational costs, outsourcing and innovation and outsourcing and employee productivity. The chapter also gives benefits of outsourcing, a critique of human resource outsourcing study, research gap, and conceptual framework.

#### **2.2 Outsourcing**

Outsourcing is becoming a common development among specific industries and services. Blokdijk (2010, P.118) defines outsourcing as the process of “accomplishing things from outside that organization rather than delegating work to people inside.” Similarly, Chase et al. (2004, p. 204) cited in Schienederjans, Schienederjans and Schienederjans (2005) define outsourcing as the “act of moving some of the firm’s internal activities and decision responsibilities to outside providers.” In this context outsourcing is viewed as the process of subcontracting a service to a third party company to provide a service that could otherwise be performed by in-house workers. Simply put, outsourcing refers to a transfer of a business function or a service to an external, third party service provider. On the same note, Lankford and Parsa (1999) cited in Schienederjans et al. (2005, p. 3) defines outsourcing as the procurement of goods or services from sources that are external to the organization.” International Association of Outsourcing Professionals [IAOP] (2010) defines outsourcing as the placing responsibility for various elements of the HR function with a third-party provider. IAOP (2010) argues that the continuing global growth of labor outsourcing has pushed organizations to acquire outsourced services. According to IAOP (2010), diversity of HR functions makes it difficult to outsource labor as a whole from a single service provider.

Mahmoodzadeh, Jalalinia, and Yidzi (2009) suggest that labor outsourcing have been among the most significant transformations occurring in the organization of work across all industrialized world. Mahmoodzadeh et al. (2009) maintains that outsourcing is where the outsourcing service provider provides the service in the performance of the contract and the workers typically work under the directions of outsourcing service provider management. In addition, Latham, Shaw, Chandler and Calleja (2012) provide details of the HR outsourcing deal between the BBC and Capita. The deal is worth \$100m and involved the transfer of around 260 staff from the BBC to Capita and was expected to save the BBC \$50m. The

service outsourced included recruitment, human resource, administration, assesment and outplacement, training and development, relocation, and disability access services (Latham et al., 2012).

According to Hsiao (2011), organization functions which most commonly outsourced by UK organizations include cleaning, catering, security, transportation and building maintainance. Hsiao (2011) reiterates that there is nothing new about organizations subcontracting such functions to external providers. Elmuti (2003) adds that increasingly, managers are keen to focus their energies on their core business activities, that is, those activities which are the source of competitive advantage and which determine the success or failure of the organizations. There is thus a desire to minimise the amount of management time and effort which is spent carrying more marginal activities (Carbaugh, 2010).

Armstrong (2012) maintains that the significance of labor outsourcing in an organisation can be viewed from different perspective. First, some researchers have focused on motivations and reasons for outsourcing activities (Bureau of National Affairs, 2001, Gubman, 2004; Lawler, 2003; Lawler & Boudreau, 2009; Lawler, Boudreau, & Mohrman, 2006; Lawler, Jamrog, & Boudreau, 2011; Elmuti, 2003). According to this perspective, the global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host countries or third party nationals (Armstrong, 2012). Other researchers have identified several outsourcing issues, trends and strategies that companies take in establishing and effectively managing their outsourcing activities (Lawler et al, 2011). The trend is for outsourcing relationships to function more as partnerships. Outsourcing can take in of the following forms: Public-Private Partnerships, volunteers, load shedding, franchising and vouchers.

Schniederjans, Schniederjans, and Schniederjans (2005) explain that contracting out typically involves a competitive bidding process in which requests for proposals are disseminated to eligible vendors. Proposals are then evaluated and a decision is made based on either a cost or “best value” basis. Contractor performance is then monitored and managed in view of predetermined service goals (Schniederjans et al., 2005). Lientz and Rea (2012) observe that governments and public institutions require contractor registration prior to bidding while others independently select potential contractors based on experience and reputation. In line with this, it is crucial for the development of contractor evaluation criteria which reflects

what is truly important to the outsourcing entity. This will ensure that the outsourcing entity is competitive and deals with implementation concerns an economic entity functioning in business environment (Nalepka, &Ujwary-Gil, 2011). Contractor evaluations should point out key competencies distinctively and be declarative.

Moreover, Lientz and Rea (2012) describe Public-Private Partnerships (PPPs) as arrangements where private sector finances, designs, builds, maintains and operates infrastructure assets which were traditionally provided by public sector. Similarly, Public Financing Management, Inc. (2009) defines PPPs as cooperative arrangements between governments and private organizations to jointly fund or operate a particular program, project, or service. Therefore, PPPs typically involve concerned local stakeholders helping to provide a program, project, or service of a particular value to a local community or neighborhood. In essence the private sector is involved in purchasing already existing infrastructure assets and redeveloping them on private sector entity (Lientz& Rea, 2012). Consequently, Lientz and Rea (2012) explain that PPPs benefit both the government and the private organizations involved by undertaking a valuable service, project, or program that could not be carried out independently by either entity.

Public Financing Management, Inc. (2009) also describes volunteers or volunteer associations as the provision of highly valued public services highly valued by community members for no cost to the government. It is observed that many public entities use volunteers in the provision of different services such as park maintenance, recreational programs, and neighborhood watch activities among other programs. On the other hand, load shedding is said to involve government giving up the responsibility for providing services or operating a program (Public Financing Management, Inc., 2009). Load shedding is mostly done with the understanding that another entity, public or private, who buy the public assets associated with the service or program and offers these itself such as the handing off of a museum to a private museum foundation or control of a city park to a local parks conservancy (Public Financing Management, Inc., 2009).

Franchising according to Public Financing Management, Inc. (2009) involves the licensing of private service providers to exclusively provide public services in a particular area. From there on, the residents are then charged fees by the vendors for the services and goods provided. Schniederjans et al. (2005) add that through franchising, the residents are able to access selected services and goods from a vendor. Schniederjans et al. (2005) reiterate that as

much as franchising is rarely used in by governments, it can be more efficient and is known to bring efficiency especially in waste collection and hauling.

Nalepka and Ujwary-Gil (2011) describes voucher as a form of outsourcing which separate the provision of public service while the government fund or finance the vouchers issued to individual public institutions. In essence the government pays third parties for goods or services provided to residents. Nalepka and Ujwary-Gil (2011) adds that the holder of a voucher chooses a supplier and pays them for the services and goods provided using the voucher. Public Financing Management, Inc. (2009) maintains that they are mostly used to promote availability of services without necessarily having the direct provision by governments. Some of the services that may use vouchers are schools, housing projects, and provision of social services.

### **2.2.2 Operational Costs**

Overall, the majority of empirical research on the subject supports the conclusion that outsourcing results in reductions in government expenditure. Studies have revealed that the extent of savings varied widely, and that in some instances, there was evidence of cost increases following outsourcing (Oshri, Kotlarsky, & Willcocks, 2011). They concluded no useful 'rule of thumb' exists on the size of the probable impact of outsourcing on the costs of delivery. Rather, it appears each instance contains its own unique characteristics which influence its success or otherwise (in cost terms). Oshri et al. (2011) found out the statistical heterogeneity in the level of savings across industries and argued that the overall level of savings from outsourcing is approximately 6-12 per cent. Lev (2001) concluded that the often quoted 20%-savings rhetoric appears to be deceptively optimistic on average and unlikely to apply to many public-sector services. Therefore, while there is still some ongoing debate about the magnitude of the cost change associated with outsourcing, there seems to be some consensus about the direction of the change (Lawler & Boudreau, 2009).

Wisniewski (2001) maintains that indirect costs of production also need to be factored into the expenditure comparison equation. Such costs are incurred whether the service is provided internally or externally and should be included in any cost comparisons. These costs should be accounted for by allocating a percentage of such costs to the particular service activity in question (Wisniewski, 2001). Transaction costs such as writing the specification, drafting the contract, evaluating the tenders also need to be accounted for since it is the sum of production

and transaction costs that determines whether any given activity should be conducted within the boundaries of the organization (Williamson, 1985).

Despite the difficulties, there are numerous quantitative studies that have examined whether outsourcing achieves reductions in government expenditure, most of these studies have adopted a cross-sectional approach to analyzing contracts let to both public and private-sector service providers in a particular industry, but many are also case studies of outsourcing exercises. The most commonly studied industries have been the cleaning and refuse collection industries, primarily because these services were frequently outsourced and the outputs are relatively easy to measure (Edwards & Stevens, 1978; Domberger, Meadowcroft & Thompson, 2002; Milne & McGee, 1992; Reeves & Barrow, 2000; Dijkgraaf & Gradus, 2001). Other studies have addressed the issue in industries such as transportation services recorded by Karlaftis and McCarthy (1999), Nash (1993) Hensher and Beesley (1989), maintenance of heavy equipment by Reza and Zieg (1995), fire protection services by Ahlbrandt (1973), prison management services by Edwards (1996), and road maintenance services by Blom-Hansen (2003). Most of these have found evidence of expenditure reductions, but some studies have demonstrated that expenditure has increased or that the magnitude of savings has been overstated (Carver, 1989; Woodland, Swords, & Hall, 1995; Holcombe, 1991).

In a study by Domberger, Meadowcroft and Thompson (1986) controlled for 12 service characteristics including collection method, frequency of collection, volume of refuse collected and wages, the results showed that local authorities that had put refuse collection to tender and awarded a contract to a private operator achieved savings of 22 per cent on average. Local governments that awarded the contract to the in-house team also achieved cost savings of around 17 per cent, which indicates that competition plays an important role in the determination of expenditure reductions. Subsequent work by Szymanski and Wilkins (1993) using the same data set confirmed these findings.

### **2.2.3 Outsourcing and Cost Management**

One of the key motivations for outsourcing certain aspects of business activities is to help in cost reduction associated with this practice. In this regard, Kakumanu and Portanova (2006) note that the main driver in outsourcing is often cost reduction. In an empirical study of outsourcing by UK firms, Girma and Gorg (2006) concluded that high wages are positively related to outsourcing, suggesting that the cost-saving motive is important. Cost analysis of

the outsourcing decision involves attempting to measure all important costs associated with the two alternatives-perform internally or outsource. However, in many cases these cost calculations tend to focus primarily on manufacturing costs and do not provide a true reflection of the total cost involved. Also other more qualitative factors such as the long term strategic implications and the work force reaction to outsourcing of the organization might have a greater impact on the decision making process (Kakumanu & Portanova, 2006).

Labor cost reduction is often the advantage of outsourcing that is focused upon. The recruitment and training process for in-house employees can be expensive, whereas the temporary worker is already skilled and possesses the necessary qualifications (Kakumanu & Portanova, 2006). Furthermore, the recruitment process for temporary workers is often streamlined. Outsourcing also avoids the training costs associated with the steep learning curve that often takes place when the organization performs tasks in-house (Garen, 2007). An additional benefit of outsourcing is when the temporary worker is an independent contractor. An employer is not obligated under law to pay the contractor a set of mandatory costs that an employee is entitled to. These costs include workers' compensation insurance, taxes, benefits such as sick pay or leave, and paid overtime. It is suggested that by hiring an independent contractor, up to 40 per cent of an employee's salary can be saved (Workplace Today, 2003).

Outsourcing reduces project commencement times. Outsourcing can decrease the wait time before a project begins. Contractors are on hand right away. Sople (2009) argues that the recruitment process for a temporary worker is significantly different to that of an in-house employee. It can take months to hire an employee and you may have to train them. All of this takes time. With the temporary worker, recruitment can be fast and the project can literally commence within a matter of hours (Sople, 2009). Other time considerations are recreation leave, absenteeism and career development (Elmuti, 2003). Usually with an independent contractor, these are not the organization's concern. Griffin (2012) argues that outsourcing can be utilized only when needed at peak periods. Temporary workers can be sourced at the busiest times in the business. There is no commitment required by the organization if the slow season arrives or a slump occurs. With an in-house employee, the employer has to continue to pay labor costs. Alternatively, the employer would have to stand down the employee. In this respect, the outsourcing to temporary employees offers significant flexibility (Griffin, 2012).

#### **2.2.4 Outsourcing and Employee Innovation**

Outsourcing is nowadays a strategic choice firms undertake for different reasons. In broad terms, it can be defined as the “turning over of all or part of an organizational activity to an outside vendor” (Barthelemy, 2003, p.87). It is widely accepted that innovation is a primary source of productivity growth. A company’s commitment to innovation is directly related to its long-term success. With the outsourcing of business functions in order to cut costs, streamline processes, and improve competitive standing, many have speculated on the link between outsourcing and innovation. Hewlett-Packard Company for instance employed outsourcing strategies in an effort to make their operations more efficient and able to sustain innovation over the long haul, while the Centre for Research in Innovation and Competition at the University of Manchester argues that Firms, even large multinational corporations, can no longer expect to be totally dependent on their in-house research and technology resources to maintain innovative performance hence need for labor outsourcing (Barthelemy, 2003).

However, Karen (2004) cautions that although long term effects of extensive outsourcing of labor on innovation is not known, certain factors that have been important to innovation in the past are affected when the backdrop of outsourcing is imposed, hence management need to understand these factors and monitor the effects of changes in the business culture of innovation. The atmosphere established by leadership that is committed to the pursuit of new ideas and the encouragement of individuals to set loose their creative juices, that is, if a person believes that the climate is open and that their input is valuable, then they are more likely to use their capabilities to innovate (Karen, 2004). When outsourcing becomes part of organizational strategy, it is likely to influence the innovation climate for it motivates them to work harder. Karen (2004) argues that to maintain vibrant innovative climate, leaders need to focus on ways of reinforcing innovator confidence while labor outsourcing continues.

It is argued that creative individuals take information from diverse sources and find patterns in that information which lead them to solve problems in a new way (Hill & Jones, 2012). Elmuti and Kathawala (2000) argue that outsourcing provides institution with opportunities to add more experts to their resource pool hence chances of increasing innovative performance may improve. As new people are added to the mix of problem solvers, institutions can benefit from their fresh perspective and ties to a new common goal. It is this promise that drives creation of innovative networks (Elmuti & Kathawala, 2000). Hill and Jones (2012) add that labor outsourcing has positive effects such as increased profits due to cost reductions which lead to increased innovative activity for institutions or outsourcer



firms. Hill and Jones (2012) continue to argue that outsourcing has direct effects on innovation, that is, it allows institutions to restructure their activities towards innovation as a result of increased profits, this leads to more funds being spend on research and development.

Organizational innovations can have an important effect on productivity on their own. In this sense, Elmuti (2003) organizational innovations can increase the quality and efficiency of work and improve the information sharing and the ability of the firm to use new technologies, as such increasing the productivity of investment in knowledge. Greer et al. (1999) argued that trade in intermediate inputs has an impact on employment and wages that is observationally equivalent to the changes induced by technological innovation. Outsourcing has provided long term effects on innovation, that is, competitive advantage as institutions turn more on innovation than on labor costs hence management should also focus on infusing innovative atmosphere as they continue to outsource (Hodgge, 1999).

#### **2.2.4 Outsourcing and Employee Productivity**

Efficiency in outsourcing is the platform that allows small companies to compete with big ones because firms can engage in conducting their business functions (Griffin, 2012). Companies can access these advantages easily without having to train the members of their organization in this area. Additionally, Griffin and Moorhead (2010) argue that organizations do not need spend too much time and resources on hiring personnel who have a lot of experience in that field of expertise. Usually, getting such professionals to work for an organization can be detrimental to their finances. Outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the core business functions of a company (Griffin & Moorhead, 2010). Companies can therefore concentrate on aspects of business that they encircle their business objectives and this eventually improves their business functions.

Outsourcing also gives companies the opportunity of expanding (Hill & Jones, 2012). Since a company is concentrating on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. Hioll and Jones (2012) observe that the overall effect of such an approach is that many persons may now have the opportunity to improve their business values. This then gives them a platform for improving their business sizes. Outsourcing is also chosen by many enterprises because through this business

approach, it is possible to save on valuable time. Usually, companies that outsource can make faster deliveries to their respective consumers (King, 2002).

According to Selko (2013), the present value of the Recruitment Process Outsourcing industry (RPO) in India is estimated to be \$2.5 billion and it is expected to grow at the annual rate of 30-40 per cent for the next couple of years. Selko (2013) adds that the only 8-10 per cent of the Indian companies are complete recruitment processes. However, the number of companies outsourcing their recruitment processes is increasing at a very fast rate and so is the percentage of their total recruitment processes being outsourced. In this regard, outsourcing organizations strive for providing benefits to their clients. One of the major advantages to organizations, who outsource their recruitment process, is that it helps to save up to as much as 40 per cent of their recruitment costs (Hill & Jones, 2012). With the experience, expertise and the economies of scale of the third party, organizations are able to improve the quality of the recruits and the speed of the whole process. Also, Hill and Jones (2012) add outsourcing enables the human resource professionals of organizations to focus on the core and other HR and strategic issues. Outsourcing also gives a structured approach to the whole process of recruitment, with the ultimate power of decision making of recruiting with the organisation itself (Griffin & Moorhead, 2010). The portion of the recruitment cycle that is outsourced range from preparing job descriptions to arranging interviews, the activities that consume almost 70 per cent of the time of the whole recruitment process. (Griffin & Moorhead, 2010).

Contractor et al. (2010) hold that outsourcing the recruitment processes for a sector like BPO, which faces an attrition of almost 50-60 per cent, can help the companies in BPO sector to save costs tremendously and focus on other issues like retention. The job seekers are also availing the services of the third parties (consultants) for accessing the latest job opportunities. Outsourcing can help organizations to expand their total production capacity without heavy investments and develop and/or launch a new product without heavy investments or risks it can also help them stay on the market with competitive prices, despite high price-pressure and without incurring heavy losses (Schoeman, 2007).

### **2.2.5 Benefits of Outsourcing**

The drivers for outsourcing human resources are frequently quoted as reducing costs and improving service delivery. According to Beulen, Ribbers, and Roos (2012) explains that

outsourcing appears to encourage the measurement on the value of Human resources (HR). Beulen et al. (2012) suggest that these come about through the need for service-level agreements and key performance indicators with a greater focus on customer satisfaction. Brown and Wilson (2012) point out that in the USA identify a wide range of benefits from outsourcing such as allowing a firm to concentrate on its core business, gaining from the specialist supplier's economies of scale and learning from them, shifting the burden of risk and enabling greater numerical flexibility, and the ability to keep costs down due to competitive tendering processes. Outsourcing has also been introduced as a vehicle for effecting changes that would be hard to implement internally. For example in larger organizations, outsourcing has been used to bring different parts of the organization together to reduce costs, apply common standards and share best practices and to provide access to innovative IT solutions (Brown & Wilson, 2012).

### **2.3 Critique of the Existing Literature to Human Resource Outsourcing**

Outsourcing has been faced with some problems in terms of possible adverse consequences identified with the potential loss of skill, knowledge and capacity, a reduction of quality of services, short term disruption and discontinuity and damage long term competitiveness (Elmuti, 2003). Brown and Wilson (2012) point out that it has been suggested by a senior human resource practitioner that outsourcing is not a threat for the function or the business, but a threat to an individual.

Carbaugh (2010) argues that outsourcing will lead to loss of managerial control. Carbaugh (2010) maintains that whether contracts signed to have another company perform the function of an entire department or single task, the result is turning the management and control of that function over to another company. A contract will be in place but the managerial control will belong to another company. The outsourcing company will not be driven by the same standards and mission that drives the company that is providing the services. They will be driven to make a profit from the services that they are providing to the outsourcing company and other businesses like yours (Carbaugh, 2010).

Beulen et al. (2012) add that outsourcing will bring threat to security and loss of confidentiality. The life-blood of any business is the information that keeps it running. Beulen et al. (2012) maintain that some payroll, medical records or any other confidential information that will be transmitted to the outsourcing company, there is a risk that the confidentiality may be compromised. If the outsourced function involves sharing proprietary

company data or knowledge such as product drawings, formulas among others. This must be taken into account. Evaluate the outsourcing company carefully to make sure the organization's data is protected and the contract has a penalty clause if an incident occurs (Beulen et al., 2012).

#### **2.4 Research Gap**

There has been an enormous amount of research conducted on the effects of outsourcing in organizations, making it one of the most praised, criticized and debated management practices (Elmuti&Kathawala, 2000). Despite all the research, countless management texts, relevant articles and associated conference papers, outsourcing strategy remain a major source of frustration for managers. In this regard, this study sought to establish the effect of outsourcing on employee productivity in selected parastatals in Kenya. The attitudinal results presented in this study provides support for the claims of outsourcing proponents that outsourcing allows companies to enhance expertise, improve service quality, reduce staff, streamline the process of recruitment, lower costs and reduce the administrative burden and saving time. Outsourcing in this sense, would be beneficial to organizational performance (Quinn 2000).



## 2.5 Conceptual Framework

A conceptual framework according to Thomas (2010) can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Its aim is to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. It highlights the study variables and illustrates the underlying relationships (Thomas, 2010). In this study, the dependent variable in this study is employee productivity shown by operational cost, and innovation while the independent variable is outsourcing represented by outsourced activities and forms of outsourcing. Figure 2.1 presents the conceptual framework.

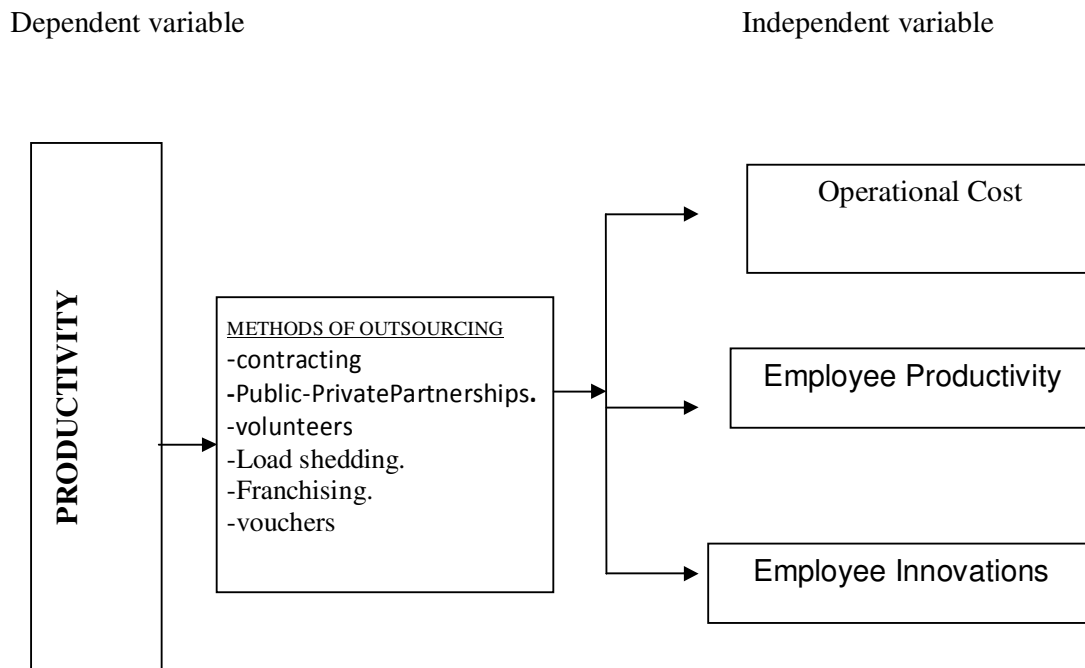


Figure 2.1 conceptual framework.

Source: resercher 2014

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter gives the methodology adopted and used in this study. It describes the study design, target population, sample design, data collection procedure (instruments), and data analysis method.

#### **3.2 Research Design**

Research design is the basic plan that indicates an overview of the activities that are necessary to execute the research project which consists of procedures used to test the predicted relationships natural phenomena thus providing answers on how the variables under study would be defined, measured, and related to each other (Mugenda&Mugenda, 2003). This study adopted a descriptive study design.

According to Kothari (2008), descriptive research studies are concerned with describing the characteristics of an individual or group. Mugenda and Mugenda (2003) explains that descriptive designs focus on the current status of occurrences rather than the causes of the current occurrences. Therefore, it involves the collection and analysis of data in order to determine the current status of some phenomenon. This design helps in determining the status, relative incidence and conditions of a problem at the present time. In some cases, casual relationships may be involved (Kothari, 2008). Mugenda and Mugenda (2003) maintain that in the data collection process, questionnaires, interviews and observations are predominantly used. Thiin line with this this study used questionnaires andd interviews in the collection of data from parastatals in kenya in order to determine hte effects of outsouyrncing on productivity.

#### **3.3 Target Population**

Population is defined as a complete set of individuals, cases or objects with some common observable characteristic, (Mugenda&Mugenda, 2003).Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated to generalize the results. The target population of this

study were 61 employees inclusive of top management of the selected parastatals within Nairobi county.

### **3.4 Sample and Sampling Procedures**

Mugenda and Mugenda (2003) defines a sample as a sample refers to a subset of population elements from which information required in the study is collected.

On the contrary, sampling is the process of selecting a portion of the population to represent the entire population (Mugenda and Mugenda (2003). In this study simple random sampling and purposive sampling were used in the selection of respondents. Kothari (2008) describes random sampling as the process which involves giving a number to every subject or member of the accessible population placing the numbers in a container and picking them randomly while purposive/judgmental sampling as a type of non-probability sampling method whereby the units selected to be observed are selected based on the researcher's judgment about which ones will be the most useful

A simple random sampling technique was used to select a sample of 61 people , representing 40% of the target population, that was involved in this study. Simple random sampling was used because the number of employees in the management were few and known. According to Mugenda and Mugenda (2008), 40 % population is regarded to be statistically significant sample in a descriptive study with a finite universe.

This sampling is further supported by the following formula:

$$Nf = n / ((1+n)/N)$$

Where  $n_f$  = *the desired sample size (when the population is less than 10,000)*

$n$  = *the desired sample size (when the population is more than 10,000)*

$N$  = *the Estimate of the population size*

In the parastatals, human resource managers or procurement managers were targeted as the interview respondents.

### **3.5 Research Instruments**

Data was collected using primary source method since primary data is the first hand information obtained from respondents through use of questionnaires and interviews (Sekaran, 2006). The questionnaires was considered suitable are suitable for a descriptive



study since they are easy to administer, ensure fast delivery and the respondents can answer at their own convenience (Serekan, 2006). The questionnaire contained structured questions to capture the ratings of the effect of outsourcing on operational costs, productivity and innovation. It also helped in determining the extent to which different activities were outsourced and the forms of outsourcing used. The questionnaire also contained a section meant to collect information on the background of the respondents. Properly standardized questionnaire was used in order to elicit accurate and relevant information. Whereas the questionnaire yielded quantitative data, interviews were used to collect qualitative information.

### **3.6 Data Collection Procedures**

According to Kombo (2006), data collection refers to gathering specific information aimed at providing or refuting some facts. This process is important as it allows for dissemination of accurate information and development of meaningful programs (Kombo, 2006). This study collected primary data by administering questionnaires. The questionnaires were distributed to the respondents and duration of one week given to respondents to fill the questionnaire. Follow-ups were made to ensure high response rate is recorded. To effectively carry out interviews, the researcher booked appointments with the interviewees. Notes were taken during the interviews using a checklist for the services outsourced and other forms of outsourcing.

### **3.7 Data Processing and Analysis**

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda & Mugenda, 2003). The analysis of quantitative data resulting from the questionnaire involved coding, data entry, and data processing using Statistical Package for Social Sciences (SPSS) version 20. The results were presented in form using descriptive statistics such as mean, frequencies..... and inferential statistics such as regression and correlation analysis . Regression was applied in the analysis of the operationalized data to determine the relationship between the variables. The equation was of the form:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X + \epsilon$$

Where

$\beta$  is a correlation coefficient

Y= effects of outsourcing (employee productivity, innovation and operational cost)

$X_1$ = contracting out

X<sub>2</sub>= Franchising

X<sub>3</sub>= Volunteers

X<sub>4</sub>= Load shedding

X<sub>5</sub>= Vouchers

X<sub>6</sub>= Public private partnerships

The results were presented in table and figures. On the other hand, qualitative data was from interviews were analyzed thematically and presented in form of narratives.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRATATION

#### 4.1 Introduction

The chapter represents the empirical findings and results on the data collected using the questionnaire. Different statistical techniques were applied to provide answers to the research questions by investigating, interpreting and bringing forth implications drawn from the findings.

#### 4.2 Response Rate

The study targeted 61 respondents but managed to obtain responses from 36 of them thus representing a 59.1% response rate as shown in Table 4.1. This response rate was considered adequate for analysis and making conclusions for the study.,Babbie (2010) explains that a 50% response rate is adequate, 60% good and above, while 70% rated 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*

Response	Frequency	Percentage
Returned	37	59.1
Not returned	24	40.1
Total	61	100.0

*Source: Primary data*

#### 4.3 Reliability Analysis

The reliability of an instrument refers to its ability to produce consistent and stable measurements. Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is the Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test; internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

In this study to ensure the reliability of the instrument Cronbach's Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that outsourced activities had a coefficient of 0.551, operational cost had a coefficient of 0.737, innovation recorded 0.789, and effect of outsourcing on productivity recorded 0.917. All constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.5 thus the study was reliable (Nunnally& Bernstein, 1994; Nunnally, 1974). On the basis of reliability test it was supposed that the scales used in this study were reliable to capture the constructs as shown in the Table 4.2.

**Table 4.2 Reliability Analysis**

Independent Variables	Cronbach's Alpha	Comments
Outsourced activities	.551	Accepted
Outsourcing effect on operational cost	.737	Accepted
Outsourcing effect on innovation	.789	Accepted
Outsourcing effect on productivity	.917	Accepted

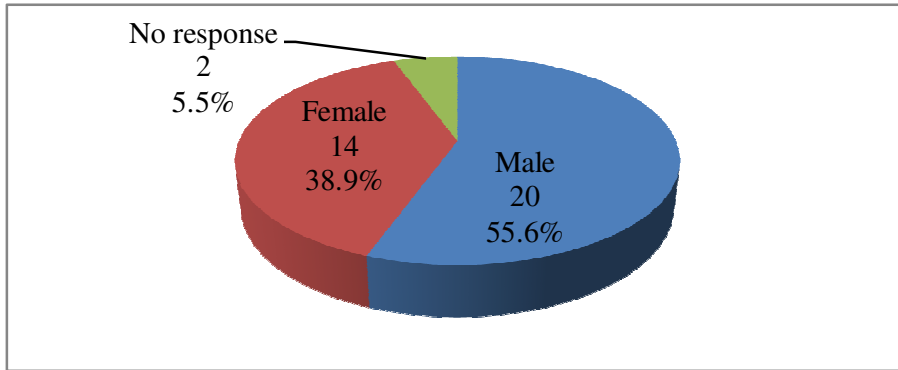
*Source: Primary data*

#### **4.4 Respondents' Background Information**

Demographic characteristics of the respondents were of importance in this study. These include gender, age, highest level of education, and management level. The findings are presented below.

##### **4.4.1 Gender**

This study sought to establish the gender of the respondents. The findings presented in figure 4.1 reveal that slightly half of the respondents (55.6%, 20) were male while 38.9% (14) were female. Another 5.6% (2) of the respondents did not answer this question. This implies that the majority of the respondents were male. These findings also imply that whereas there were more male than female respondents, the distribution met the third gender rule. This means that the gender distribution across the parastatals from which respondents were drawn met the third gender rule in all government institutions in Kenya.

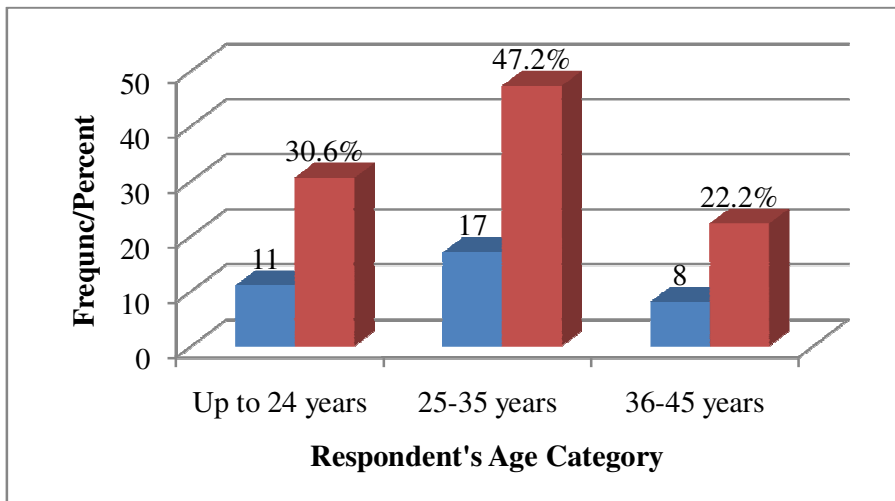


**Figure 4.1 Respondents' Gender Distribution**

Source: Primary data

#### 4.4.2 Age

Study results presented in figure 4.2 reveals that the majority of the respondents (47.2%, 17) were aged between 25 and 35 years followed by those aged between 18 and 24 years who were 30.65 (11). Another 22.2% (8) of the respondents were aged 36 to 45 years. This means that over seventy percent of the respondents (77.8%, 28) were aged 35 years and below. This means that the majority of the respondents were young. This further implies that the majority of the employees from which the respondents were drawn were young with only 22.2% being outside the youth bracket. This is based on the definition of youth as any Kenyan aged between 18 and 35 years by Njogu (2008).



**Figure 4.2 Respondents' Age Distribution**

Source: Primary data

#### 4.4.3 Highest Level of Education

It was important to determine the respondents' highest level of education. Study findings presented in table 4.3 show that the majority of the respondents (52.8%, 19) had attained bachelor's degree. Diploma holders followed with a response of 30.6% (11) while the respondents who had postgraduate qualifications were 13.9% (5). Another 2.8% (1) of the respondents had attained a certificate. This implies that most of the employees from the parastatals from which the respondents were drawn had attained at least a bachelor's degree. These findings also reveal that all the respondents had formal professional training. This implies that the duties carried out by the respondents required specialized training.

***Table 4.3 Respondents' Highest Level of Education***

Academic qualification	Frequency	Percent
Certificate	1	2.8
Diploma	11	30.6
Bachelor's degree	19	52.8
Postgraduate degree	5	13.9
Total	36	100.0

*Source: Primary data*

#### 4.5 Outsourced Activities

One of the objectives of this study was to establish the outsourced activities in parastatals. In this view this study sought to establish the forms of outsourcing used in parastatals. To do this, various forms of outsourcing were provided for the respondents to rate the extent to which the parastatals they were drawn from used them. The rating scale was 1= very little extent, 2= little extent, 3=average, 4= large extent, 5= very large extent and NR= none response. The findings are presented in table 4.4 below.

**Table 4.4 Forms of Outsourcing used in Parastatals**

	1	2	3	4	5	NR	Total	Mean
Outsourcing in our institution involves competitive bidding process/contracting out	2.8	2.8	25.0	41.7	25.0	2.8	100.0	3.8571
Some services are offered by volunteers at no cost on behalf of the institution/volunteers	8.3	5.6	41.7	33.3	5.6	5.6	100.0	3.2353
Our institution has relinquished the responsibility for providing services or operating a program/ load shedding	11.1	2.8	36.1	22.2	16.7	11.1	100.0	3.3438
Our parastatals is involved in licensing private service providers to exclusively provide public services in a particular area/franchising	8.3	16.7	36.1	22.2	8.3	8.3	100.0	3.0606
Vouchers are used to pay for goods and services in our parastatal	27.8	8.3	33.3	13.9	8.3	8.3	100.0	2.6364
Local stakeholders help to provide a program, project, or service of a particular value to a local community or neighborhood/ Public-Private Partnerships	41.7	38.9	5.6	8.3	5.6	0.0	100.0	1.9722

*Source: Primary data*

When asked to give the extent to which outsourcing in their parastatals involved competitive bidding, most of the respondents (41.7%, 15) gave a large extent rating followed by 25% (9) of the respondents who gave average and very large extent ratings. Little extent, very little extent and none response each recorded 2.8% (1). The resulting mean was 3.8571 which tends towards 4 (large extent rating) indicative of the fact that the majority of the respondents were of the view that outsourcing in their institutions involved competitive bidding. These findings point to the fact that most parastatals from which the respondents were drawn used competitive bidding which is a characteristic of contracting out. According to Schniederjans et al. (2005), contracting out typically involves a competitive bidding process in which requests for proposals are disseminated to eligible vendors. These findings imply that contracting out was one of the main forms of outsourcing used by parastatals in Kenya.

To determine whether volunteer form of outsourcing was used in parastatals, the respondents were asked to rate the extent of its usage. From the findings, a mean of 3.2353 was recorded with most of the respondents (41.7%, 15) giving average rating followed by 33.3% (12) of the respondents gave a large extent rating. Another, 8.3% (3) of the respondents gave a very

little extent while little extent, very large extent and none response were 5.6% (2) each. This means that the use of volunteers in parastatals was average with fewer parastatals (13.9%, 5 little and very little extent combined) hardly using the services of volunteers. This is in line with the description of volunteers by Public Financing Management, Inc. (2009) as the provision of highly valued public services highly valued by community members for no cost to the government.

Load shedding according to Public Financing Management, Inc. (2009) involves government giving up the responsibility for providing services or operating a program. Study findings on load shedding usage revealed that mean of 3.3438 resulted which is slightly above average (3). Moreover, study findings revealed that 36.1% (13) of the respondents gave a neutral rating while 22.2% (8) gave a large extent rating. Another 16.7% (6) gave a very large extent rating while 11.1% (4) were each recorded by very little extent and none response. Another 2.8% (1) of the respondents gave a little extent rating. From these findings it can be observed that over 70% of the respondents gave an above average usage of load shedding in parastatals they were drawn from (75% average, large extent, and very large extent). This implies that load shedding was used in most of the parastatals in Kenya.

The use of franchising was determined by rating the extent to which outsourcing in the parastatals from which the respondents were drawn involved licensing private service providers to exclusively provide public services in a particular area. This statement recorded a mean of 3.0606 indicative of the fact that the ratings tended toward 3 (average). Study results also showed that 36.1% (13) of the respondents gave an average rating while large extent was reported by 22.2% (8) of the respondents. Another 16.7% (6) gave a little extent while none response, very little extent and very large extent each recorded a response of 8.3% (3). This means that the number of parastatals which used franchising to a little extent balance off with those whose usage was at least to a large extent. This shows that franchising was less used in parastatals in Kenya. Franchising according to Schniederjans et al. (2005) the residents are able to access selected services and goods from a private service provider licensed to exclusively provide public services in a particular area. From this description it is clear that most parastatals did not license private service providers to provide service to the public.

Further, the respondents were asked to rate the extent to which vouchers was used to pay for goods and services provided to the parastatals. From the findings, the resulting mean was



2.6364 which is between average (3) and little extent (2) tends towards average (3). Study results showed that 33.3% (12) of the respondents gave an average rating while 13.9% (5) gave a large extent rating. Another 27.8% (10) gave a very little extent rating while little extent, very large extent and none response each recorded 8.3% (3) response. From these findings it is clear that not few parastatals used vouchers to at least a large extent (22.2%, 8 large and very large extents combined). This implies that use of vouchers as a form of outsourcing was hardly used in most parastatals in Kenya. Voucher according to Nalepka and Ujwary-Gil (2011) is a form of outsourcing which separate the provision of public service while the government fund or finance the vouchers issued to individual public institutions. This means that most of the parastatals from which the respondents were drawn did not pay third parties to goods or services provided to residents.

To establish the usage of PPPs among parastatals the respondents were asked to rate the extent to which local stakeholders help to provide a program, project, or service of a particular value to a local community or neighborhood. From the findings a mean of 1.9722 resulted which ranges between very little extent (1) and little extent (2). Most of the respondents 41.7% (15) gave a very little extent rating while 38.9% (14) gave little extent rating. Average and very large extent ratings each recorded a response of 5.6% (2) while large extent was reported by 8.3% (3) of the respondents. From these findings, it is clear that most of the respondents indicated that the parastatals from which they were drawn used PPPs minimally. This is based on Lientz and Rea (2012) definition of PPPs as arrangements where private sector finances, designs, builds, maintains and operates infrastructure assets which were traditionally provided by public sector thus allowing the local stakeholders helping to provide a program, project, or service of a particular value to a local community or neighborhood.

Additional findings from the interviews were in tandem with these findings with these findings. All the interview respondents unanimously agreed that whereas PPPs were encouraged and were on the rise, contracting out was one of the main forms of outsourcing used in the parastatals. The usage of volunteers in the parastatals was mainly when there were no fund allocated in the budgets to particular activities which was reported to be rare. On the contrary load shedding was often used when carrying out service charge collection through banks and other financial service providers while franchising only happened when there were institutions or foundations which can adequately provide the service for the public good

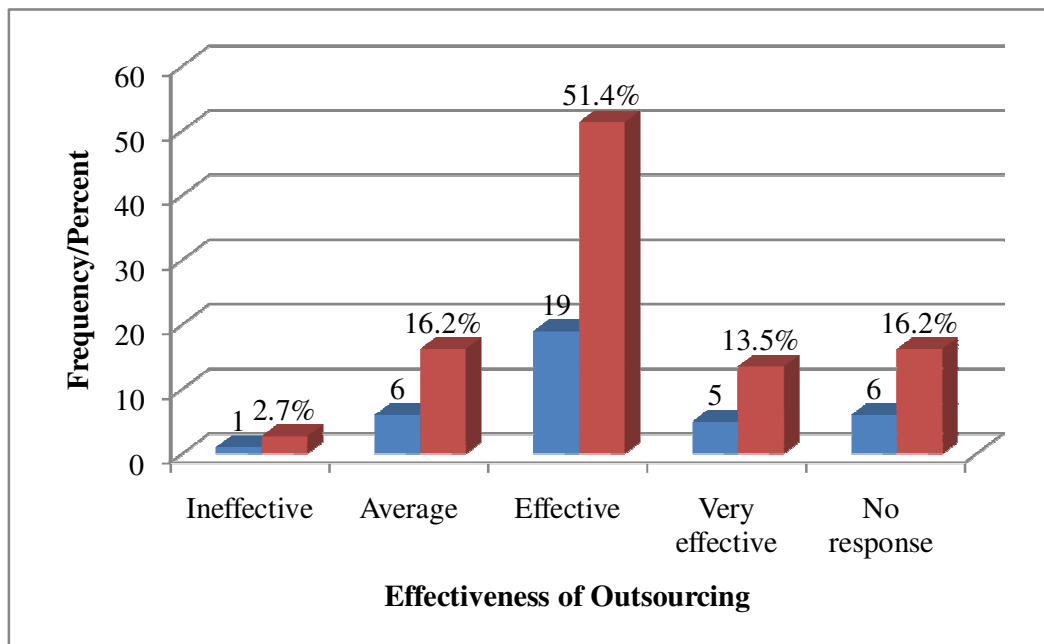
which also was considered to be a rare occurrence. However, due to the compromise of service delivery if of some of the utility services, franchising was hardly used in parastatals. On the contrary vouchers were used to pay for service provision which did not involve large sums of money. Such payments in parastatals were limited to payment for airtime supply if extra space was required.

These findings are in tandem with questionnaire findings which showed that contracting out was the most prevalent form of outsourcing used in parastatals in Kenya. Furthermore, interview respondents were asked to list the services outsourced in their parastatals. From the findings, all the interviewees explained that their institutions outsourced cleaning, security, refuse collection and building maintenance completely to service providers. Two of the six interviewees explained that training and development, transportation, and building maintenance were some of the activities that were partially outsourced. None of the parastatals outsourced functions on administration, human resource and IT. This implies that parastatals in Kenya subcontracted on core functions following the UK pattern. These findings are in tandem with Hsiao's (2011) argument that most organization functions which most commonly outsourced by UK organizations include cleaning, catering, security, transportation and building maintenance.

#### **4.6 Outsourcing Effectiveness**

Further, this study sought to establish the effectiveness of outsourcing in the parastatals. The findings presented in figure 4.3. From the findings, 51.4% (19) of the respondents rated outsourcing in their parastatal as effective while average and very effective ratings were reported by 16.2% (6) and 13.5% (5). On the other hand, ineffective rating was reported by one respondent (2.7%) while none response was 16.2% (6). From these findings it is clear that the majority of the respondents were of the opinion that outsourcing was at least effective in their parastatal. This implies outsourcing in parastatal in Kenya was at least effective. This means that outsourcing met its main objective thus making it effective. Moreover, interview respondents said that outsourcing was effective in parastatals. They explained that cases of corruption and procurement malpractices had highly reduced and Public Procurement Authority had cleaned up the systems through regulation and legislation hence improving effectiveness.

The main goal of outsourcing by organizations and institutions according Elmuti and Kathawala (2000) is to enable growth and gain sustainable competitive edge. Although it could be argued that parastatals may not necessary focus on competitive advantage, cost efficiency, gaining outside expertise, greater financial flexibility through reduced overheads, need to focus on core activities, outsourcing allows firms greater control over the amount of time they would have used to employ or recruit workers, actual or perceived risks of recruiting and laying off some staff are transferred to either labour hire agency or the worker are other benefits reaped from outsourcing (Contractor et al., 2010). These are deemed to be among the benefits achieved by parastatals through outsourcing. This is particularly true since outsourcing is considered to improve efficiency by introduces competition into the provision of public services and because private firms are relatively free of political interference (Jansen & Stonecash, 2004).



*Figure 4.3 Effectiveness for Outsourcing in Parastatals*

#### **4.7 Effect of Outsourcing on Operational Cost**

The effect of outsourcing on operational cost was one of the objectives of this study. In order to establish the effect of outsourcing on operating costs various statements were provided for rating by the respondents. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, and NR= None response.

The findings are presented in table 4.5.

**Table 4.5 Results on Rated Statements on the Effect of Outsourcing and Operational Cost**

	1	2	3	4	5	NR	Total	Mean
Due to outsourcing, our institution has been able to refocus on core business	0.0	0.0	13.9	52.8	33.3	0.0	100.0	4.1944
Outsourcing has improved overall operational cost efficiency.	0.0	2.8	16.7	55.6	25.0	0.0	100.0	4.0278
Outsourcing has enabled control of expenses of outsourced activities	2.8	5.6	22.2	36.1	30.6	2.8	100.0	3.8857
Outsourcing has achieved cost savings in the operations of the parastatals	5.6	11.1	22.2	38.9	22.2	0.0	100.0	3.6111
Outsourcing has led to improved management of resources	2.8	2.8	22.2	47.2	22.2	2.8	100.0	3.8571
Led to reduced number of employees in outsourced areas	0.0	0.0	33.3	47.2	19.4	0.0	100.0	3.8611
Has led to the transformation of some fixed costs into variable costs	2.8	2.8	27.8	50.0	16.7	0.0	100.0	3.7500

*Source: Primary data*

A statement on whether outsourcing had enabled parastatals to refocus on their core business 52.8% (19) of the respondents were drawn recorded a agree response of followed by strongly agree reported by 33.3% (12) while neutral response recorded 13.9% (4). This resulted in a mean of 4.1944. This mean is greater than 4 but tends towards 4 indicative of the respondents' agreement that outsourcing had enabled parastatals from which they were drawn to focus on their core business. These findings are in line with Elmuti's (2003) explanation that there is an increasing focus by managers on core business activities. This means that parastatals are focused on the which are the main mandate of the individual parastatals which in the business sense translate to the activities are the source of competitive advantage and which determine the success or failure of the organizations.

A statement on whether outsourcing had resulted on overall cost efficiency in the parastatals from which the respondents were drawn recorded a agree response of 55.6% (20) while a quarter of the respondents (9) strongly agreed with the statement. Another 16.7% (6) of the respondents neither agreed nor disagreed with the statement while 2.8% (1) of the respondents disagreed with the statement. This resulted in a mean of 4.0278. This mean tends towards 4 indicative of the fact that on average, outsourcing has improved overall efficiency in the parastatals from which the respondents were drawn. This means that outsourcing had led to cost efficiency in parastatals. These findings agree with Oshri et al. (2011) argument that outsourcing does lead to cost efficiency by reduction of government expenditure.

However, the same author gives scenarios of increase in outsourcing costs which are attributed to the inefficiencies and lack of competitiveness in outsourcing. This could explain neutral response, disagree and disagree responses. These findings echo Domberger et al. (1986) argument which focused on competition as a critical factor on cost saving and determinant of expenditure reductions.

When asked to give their level of agreement on the extent to which outsourcing had enabled control of expenses of outsourced activities, the majority of the respondents (36.1%, 13) agreed with the statement while a quarter of the respondents (25.0%, 9) strongly agreed with the statement. Another 16.7% (6) of the respondents neither agreed nor disagreed with the statement while 2.8% (1) of the respondents disagreed with the statement. These ratings resulted in a mean of 3.8857. This mean ranges between neutral (3) and agree (4) but tends towards 4 (agree). This implies that whereas the majority of the respondents were of the opinion that outsourcing had led to control of expenses on outsourced services. Similarly, this study sought to establish the effect of outsourcing on cost saving in parastatal's operations. From the findings, most of the respondents (38.9%, 15) agree with the statement while strongly agree and neutral ratings recorded an equal response of 22.2% (4). Another 11.1% (4) of the respondents disagreed with the statement while 5.6% (2) of the respondents strongly disagreed with the statement. The resulting mean was 3.6111. this mean is greater than 3 (neutral rating and tends towards 4 (agree) indicative of the fact that more than half of the respondents at least agreed with the statement with a tangible percentage disagreeing with the statement. this implies that whereas the majority of the respondents believed that outsourcing had led to cost saving, some of the respondents felt that there were no cost savings in the outsourced areas. This implies a gap in the implementation of outsourcing and the need to ensure operational cost reduction in parastatals. These findings bring out the aim of outsourcing as cost controls put forward by Girma and Gorg (2006). Cost analysis is said to be achieved through cost analysis and factoring in important components why shedding the unimportant as explained by Kakumanu and Portanova (2006).

Resource management in organization has a direct effect on operational costs. In line with this the respondents were asked whether outsourcing had improved the management of resources in their parastatals. Study results reveal that 47.2% (17) of the respondents gave an agree rating while strongly agree and neutral ratings each recorded a response of 2.2% (8). Similarly, strongly disagree and disagree each recorded 2.8% (1) response. This statement

recorded a mean of 3.8571 which tends towards 4 (agree) indicative of the fact that the majority of the respondents were at least in agreement with the statement. This implies that outsourcing had generally improved the management of resources in parastatals implying reduction in operational costs. These findings could be attributed to the access to affordable, reliable and offers exceptional service providers are explained by Wahome (2008).

In seeking to establish the effect of outsourcing on operational costs, the respondents were also asked to give their level of agreement on whether outsourcing had led to a reduction on the number of employees in outsourced areas. From the findings, this statement recorded a mean of 3.8611. Strongly agree recorded a response of 19.4% (7) while agree recorded 47.2% (17) response. Another 33.3% (12) of the respondents gave a neutral rating to this statement. From the findings, it is clear that none of the respondents disagreed with the statement with a third of the respondents neither agreeing nor disagreeing with the statement. This means that the majority of the respondents were at least in agreement with the statement. This implies that outsourcing had led to reduction of employees numbers in the outsourced areas. These findings echo the explanation by Osborne and Gaebler (1992) and Kettl (2000) that outsourcing helps in the reduction of public expenditure and improving the performance of government business enterprises because of the high-powered incentives provided by the discipline of the capital market. This can be achieved through the reduction of labor and training costs among other areas as presented by Garen (2007).

Outsourcing had also led to transformation of some fixed costs to variables costs shown by a mean of 3.7500 resulting from the ratings on the statement on whether outsourcing had led to transformation of some fixed costs to variable costs. From the findings, half of the respondents (50%, 18) were in agreement with the statements while neutral and strongly agree ratings recorded 27.8% (10) and 16.7% (6) responses respectively. Disagree and strongly disagree each recorded a 2.8% (1) response. This implies that the majority of the respondents felt that outsourcing had led to transformation of some fixed costs to variable costs. This observation is viewed to play out more when recruitment costs and the cost of training which are often considered variable cost are made part for the costs of contracts thus making them fixed cost (Kakumanu & Portanova, 2006; Garen, 2007).

Labor cost reduction is often the advantage of outsourcing that is focused upon. The recruitment and training process for in-house employees can be expensive, whereas the temporary worker is already skilled and possesses the necessary qualifications (Kakumanu

&Portanova, 2006). Furthermore, the recruitment process for temporary workers is often streamlined. Outsourcing also avoids the training costs associated with the steep learning curve that often takes place when the organization performs tasks in-house (Garen, 2007).

Interview respondents unanimously agreed that outsourcing had reduced operation costs in the parastatals. They explained that outsourcing had enabled them to focus on the core business and enabled control of operational expenciency which contributes to overall operational efficiency. Cost controls in the prastatals had consequetly led to cost savings due to improved managment of resourced in the organizations. Outsourcing was also reported to have led to reduction in the number of employees mainly attributed to restructuring. However, this was noted to have brough about job insecurity and reduced motivation among employees. These findings are in tandem with the arguemnt by Lawler and Boudreau (2009) outsourcing is instrumental in operational cost reduction and saving in organizations. The adverse efffeects resulting from outsourcing echo Brown and Wilson's (2012) artgument that outsourcing may pose a threat to business competitiveness due to job security threats among employees.

#### **4.8 Effect of Outsourcing and Operational Cost**

The multiple linear regression analysis models the relationship between the independent variable which was outsourcing represented by the six forms of outsourcing; public private partnerships, contracting out, load shredding, volunteers, franchising, and vouchersand the dependent variable which was operational cost.

To establish the effect of outsourcing on operational cost, the six forms of outsourcing; public private partnerships , contracting out , load shredding, volunteers, franchising, and vouchers were made the independent variables while reduction in operational cost was the dependent variable. The coefficient of determination ( $R^2$ ) and correlation coefficient ( $r$ ) shows the degree of association between outsourcing and operational cost. The research findings indicated that there was a positive relationship ( $R= 0.4658$ ) between the variables. The study also revealed that 43.2% of reduction in operational cost in selected parastatals in Kenya could be explained by outsourcing of services and functions. The findings are as shown in the Tables 4.6.

**Table 4.6 Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.658	.432	.296	.63926

Source: Primary data

Table 4.7 below shows the results of ANOVA test which revealed that the combined independent variables; different forms of outsourcing have a significant effect on operational cost in selected parastatals in Kenya. This can be explained by high F values (5.175) and low p values (0.019) which is statistically significant at 95% confidence interval. This therefore implies that outsourcing has a significant effect on operational costs in parastatals in Kenya. These findings agree with the arguemnt by Lawler and Boudreau (2009) outsourcing is instrumental in operational cost reduction and saving in organizations.

**Table 4.7 ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.784	6	1.297	5.175	.019
Residual	10.216	25	.409		
Total	18.000	31			

Source: Primary data

Table 4.8 below show the results of regression coefficients which reveal that a positive effect was reported for all the forms of outsourcing used in parastatals except for franchising (-0.060), load shedding (-0.374) and public private partnerships (-0.029). Further, the results showed that at 95% confidence level, contacting out (0.026, load shedding (0.036) and volunteers (0.010) were statistically significant since the p values were less than 0.05) and the t values were high (greater than 1.96). This implies that outsourcing had positive effect on operational cost especially when contracting out, load shedding and vouchers were used.



**Table 4.8 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.847	.676		4.210	.000
contracting out	.292	.163	.322	2.978	.026
Franchising	-.060	.140	-.079	-.426	.673
Volunteers	.305	.109	.484	2.799	.010
Load shredding	-.374	.158	-.536	-2.375	.036
Vouchers	.142	.134	.236	1.056	.301
public private partnerships	-.029	.122	-.041	-.238	.814

Source: Primary data

From this study it was evident that at 95% confidence level, contracting put with a p value of 0.026 and a t value of 2.978 together with volunteers (p value = 0.010, t=2.799) were the only form of outsourcing with significant effect on innovation at 95% confidence level despite the positive effect outsourcing had on contracting out, load shedding and volunteers. Further, study results shows that for a 1- point increase in the independent variables, innovation in selected parastatals in Kenya is predicted to increase by 2.847, given that all the other factors are held constant. These findings point to the fact that outsourcing had a positive effect on the reduction of operational costs as argued by Kakumanu and Portanova (2006) who note that the main driver in outsourcing is often cost reduction.

The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X + \epsilon$$

$$Y = 2.847 + 0.292X_1 - 0.060X_2 + 0.305X_3 - 0.374X_4 + 0.142X_5 - 0.029X_6$$

Where

$\beta$  is a correlation coefficient

Y= Innovation

X<sub>1</sub>= contracting out

X<sub>2</sub>= Franchising

X<sub>3</sub>= Volunteers

X<sub>4</sub>= Load shedding

X<sub>5</sub>= Vouchers

X<sub>6</sub>= Public private partnerships

#### 4.9 Outsourcing and Innovations

This study sought to establish the effect of outsourcing on innovation in selected parastatals by providing various statements to be rated by the respondents. The findings are presented in table 4.9. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, NR= None response.

**Table 4.9 Statements on Outsourcing and Innovations**

Statements	1	2	3	4	5	NR	Total	Mean
Outsourcing has led to innovations in our institution	2.8	2.8	16.7	44.4	33.3	0.0	100.0	4.0278
Outsourcing has provided our institution with opportunities to add more experts to their resource pool	0.0	2.8	19.4	50.0	25.0	2.8	100.0	4.0000
Due to outsourcing, our institution has added to the mix of problem solvers resulting in better goal achievement	0.0	0.0	16.7	50.0	27.8	5.6	100.0	4.1176
Outsourcing has allowed our institution to restructure their activities towards innovation	0.0	0.0	19.4	50.0	27.8	2.8	100.0	4.0857
Outsourcing has led to improved service quality	2.8	5.6	8.3	55.6	19.4	8.3	100.0	3.9091
Outsourcing has improve the information sharing and the ability of the firm to use new technologies	0.0	0.0	22.2	47.2	22.2	8.3	100.0	4.0000
Outsourcing has increased the productivity of investment in knowledge.	0.0	2.8	11.1	63.9	19.4	2.8	100.0	4.0286
Outsourcing has provided long term benefits on innovation	2.8	0.0	22.2	47.2	25.0	2.8	100.0	3.9429

*Source: Primary data*

When asked whether outsourcing had led to innovations in the parastatals the respondents were drawn from, 44.4% (16) of the respondents agreed with the statement while 33.3% (12) strongly agreed. Neutral rating was reported by 16.7% (6) respondents while disagree and strongly disagree recorded an equal response of 2.8% (1). The resulting mean was 4.0278 indicative of the fact that most of the respondents were at least in agreement with the statement. This implies that through outsourcing, parastatals from which the respondents

were drawn had realized innovation. This implies that through outsourcing, parastatals are able to attain long term success (Barthelemy, 2003). However, it should be noted that commitment to leadership will enhance and make the pursuit of innovation achievable (Karen, 2004).

Outsourcing often enables institutions to add experts to their resource pool. From the findings on this statement, half the respondents (50.0%, 18) agreed while those who strongly agreed were 25.0% (9). Another 19.4% (7) gave a neutral rating while none response and disagree rating each recorded a response of 2.8% (1). These ratings resulted in a mean of 4.0000. This implies that most of the respondents at least agreed with the statement implying that through outsourcing parastatals had the opportunity to add experts to their resource pools thus promoting innovation. This is in line with Elmuti and Kathawala (2000) argument that outsourcing provides institution with opportunities to add more experts to their resource pool hence chances of increasing innovative performance may improve.

When asked whether their institutions had realized an addition to the mix of problem solvers resulting in better goal achievement as a result of outsourcing, most of the respondents (50.0%, 18) agreed with the statement followed by 27.8% (9) who strongly agreed with the statement. Another 16.7% (6) of the respondents gave a neutral rating while none response recorded 5.6% (2) response. A mean of 4.1176 was realized from the ratings. This mean is greater than 4 (agree) implying that the majority of the respondents were in agreement with the statement. This means that through outsourcing problem solving in the parastatals had gotten a boost by adding more problem solvers who are specialized thus promoting goals achievement. These findings echo Hill and Jones (2012) observation that through outsourcing organizations are able to add to their human resources individuals who are goal oriented. These individuals are said to be creative and take information from diverse sources and find patterns in that information which lead them to solve problems in a new way (Hill & Jones, 2012).

Outsourcing often leads to restructuring activities towards innovation. In line with this this study sought to establish whether this was the case in selected parastatals. From the findings, half the respondents (50.0%, 18) agreed with the statement while 27.8% (9) strongly agreed. Another 19.4% (7) gave a neutral rating while 2.8% (1) of the respondents did not respond. The resulting mean was 4.0857 indicative of the fact that the majority of the respondents at least agreed with the statement thus the mean is greater than 4 (agree). This means that

through outsourcing, parastatals had been able to restructure their activities towards innovation. Elmuti and Kathawala (2000) and Hill and Jones (2012) maintain that outsourcing allows institutions to restructure their activities towards innovation.

This study also sought to establish whether outsourcing had led to improved service delivery. From the findings presented in table 4.6, 2.8% (1) of the respondents strongly disagreed with the statement while disagree recorded a response of 5.6% (2). An equal number of respondents 8.3% (3) gave an average response and did not respond while agree and strongly agree responses were 55.6% (20) and 19.4% (17). The resulting mean was 3.9019 which tends towards 4 indicating that most of the respondents were in agreement with the statement. This implies that the majority of respondents believed that through outsourcing, parastatals from which they were drawn from had realized improved service delivery. This alludes to the benefits of innovation as a result of increased competition in civil service which Jansen and Stonecash (2004) explain that by outsourcing an organization get specialized services which in turn improve organizational service delivery.

Information sharing and adoption of new technologies is a characteristic of innovation. The respondents were asked where outsourcing had improved information sharing and use of new technologies. Neutral and strongly agree recorded an equal response of 22.2% (8) while agree recorded a response of 47.2% (17). Another 8.3% (3) did not answer this question. From the findings, a mean of 4.0000 resulting indicative of the fact that in general the respondents were of the view that information sharing and adoption of new technologies had been promoted by outsourcing. These findings echo Elmuti's (2003) explanation that organizational innovations can increase the quality and efficiency of work and improve the information sharing.

Increase in knowledge is one of the hall marks of innovation. In line with this, the respondents were asked to give their level of agreement on the statement that innovation had increased the productivity of investment in knowledge. From the findings, this statement recorded a response of 4.0286. This means ranges between agree (4) and strongly agree (5) alluding to the fact that most of the respondents were in agreement with this statement. A total of 63.9% (22) respondents agreed with the statement while 19.4% (7) of the respondents strongly agreed. Disagree and none response each recorded a response of 2.8% (1). These findings imply that through outsourcing the productivity investment in knowledge in the parastatals from which the respondents were drawn had increased. These findings are in

agreement with Elmuti (2003) that the through outsourcing organizations are able to access and use new technologies which consequently increases the productivity of investment in knowledge.

When asked whether through outsourcing parastatals had realized long-term benefits on innovations, most of the respondents (47.2%, 17) agreed with the statement while agree and neutral ratings were 25.0% (9) and 22.2% (4) respectively. Strongly disagree and none response each recorded 2.8% (1). This statement recorded a mean of 3.9429 showing that most of the respondents were in agreement that innovation had resulted in long-term innovation benefits to parastatals. This affirms Hodge (1999) argument that outsourcing has provided long term effects on innovation by promoting attainment of competitive advantage.

Interview results also showed that outsourcing had led to improvement in innovation in parastatals through access to a wide pool of expert thus improving the problem solving in the organization. All interviewees unanimously reported that through outsourcing parastatals had been able to restructure their service delivery systems thus improving service delivery and increased return on investment on knowledge making outsourcing one of the main sources of long-term innovation. However, laxity among internal staff, adequate funding, lack of tools and equipment that use modern technology were the main challenges facing innovation in parastatals.

#### **4.10 Effect of Outsourcing on Innovation**

To establish the effect of outsourcing on innovation, the six forms of outsourcing; public private partnerships, contracting out, load shredding, volunteers, franchising, and vouchers were made the independent variables while employee innovation was the dependent variable. The coefficient of determination ( $R^2$ ) and correlation coefficient ( $r$ ) shows the degree of association between outsourcing and innovation. Study findings indicated that there was a strong positive relationship ( $R= 0.545$ ) between the variables. The study also revealed that 29.7% of innovation in selected parastatals in Kenya could be explained by different forms of outsourcing adopted. The findings are as shown in the Tables 4.10 below.

***Table 4.10 Model Summary***

R	R Square	Adjusted R Square	Std. Error of the Estimate
.545	.297	.128	.86677

*Source: Primary data*

Table 4.11 below show the results of ANOVA test which revealed that the combined independent variables have an insignificant effect on innovation in parastatals in Kenya. This can be explained by low F values (1.761) and low p values (0.148) which is statistically insignificant at 95% confidence interval. This therefore implies that outsourcing does not have a significant effect on innovation in parastatals in Kenya.

**Table 4.11 ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.936	6	1.323	1.761	.148
Residual	18.782	25	.751		
Total	26.719	31			

*Source: Primary data*

Table 4.12 below shows the results of regression coefficients which reveal that a positive effect was reported for all the forms of outsourcing except volunteers, vouchers and public private partnerships which recorded -0.027, -0.097 and -0.038.

**Table 4.12 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.958	.917		2.135	.043
contracting out	.568	.222	.514	2.564	.017
Franchising	.002	.190	.002	.012	.991
Volunteers	-.027	.148	-.036	-.185	.854
Load shedding	.039	.214	.046	.182	.857
Vouchers	-.097	.182	-.133	-.533	.599
public private partnerships	-.038	.165	-.044	-.232	.818

*Source: Primary data*

From this study it was evident that at 95% confidence level, contracting put with a p value of 0.017 and a t value of 2.564 was on the only form of outsourcing with a significant effect on innovation at 95% confidence level despite the positive effect outsourcing had on contracting out, load shedding and franchising. Further, study results shows that for a 1- point increase in the independent variables, innovation in selected parastatals in Kenya is predicted to increase by 1.958, given that all the other factors are held constant. The positive values points to the benefits of innovation as a result of increased competition in civil service These implies positive effects of outsourcing though gaining long term success, access to experts,

restructuring, use new technologies and improved information sharing and return on investment (Jansen & Stonecash, 2004; Elmuti, 2003; Hodge, 2009).

The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

$$Y = 1.958 + 0.568X_1 + 0.002X_2 - 0.027X_3 + 0.039X_4 - 0.097X_5 - 0.038X_6$$

Where

$\beta$  is a correlation coefficient

Y = Innovation

X<sub>1</sub> = Contracting out

X<sub>2</sub> = Franchising

X<sub>3</sub> = Volunteers

X<sub>4</sub> = Load shedding

X<sub>5</sub> = Vouchers

X<sub>6</sub> = Public private partnerships

#### **4.11 Outsourcing and Employee Productivity**

It was imperative for this study to establish the effect of outsourcing on employee productivity in the selected parastatals. To do this, statements to be rated by the respondents. The findings are presented in table 4.13. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, NR= none response.

**Table 4.13 Outsourcing Effects on Productivity Results**

	1	2	3	4	5	NR	Total	Mean
Outsourcing has led to increased employee productivity	5.6	5.6	5.6	58.3	11.1	13.9	100.0	3.7419
Outsourcing has led to access to skilled personnel	0.0	0.0	11.1	50.0	30.6	8.3	100.0	4.2121
It has led to improved management of resources	0.0	0.0	16.7	61.1	11.1	11.1	100.0	3.9375
Led to reduced number of employees in outsourced areas	0.0	2.8	25.0	33.3	27.8	11.1	100.0	3.9688
Led to standardized operations environment	0.0	2.8	25.0	50.0	13.9	8.3	100.0	3.8182
Outsourcing has led to better use of time by employees	5.6	8.3	16.7	47.2	19.4	2.8	100.0	3.6857
It has improved overall performance of the parastatal	0.0	0.0	22.2	50.0	22.2	5.6	100.0	4.0000
There has been improved service availability	2.8	19.4	36.1	25.0	16.7	0.0	100.0	3.9667
There has led to improved reliability, responsiveness and assurance of services	0.0	2.8	22.2	44.4	25.0	2.8	100.0	3.9706
It improved the extent to which users are satisfied with outsourced services	0.0	5.6	25.0	47.2	19.4	2.8	100.0	3.8286
Outsourcing has promoted our growth as an institution	5.6	0.0	19.4	41.7	33.3	0.0	100.0	3.9722
Due to outsourcing, has been able to allows small companies to compete with big ones because firms can engage in conducting their business functions	2.8	2.8	11.1	58.3	19.4	5.6	100.0	3.9412

*Source: Primary data*

When asked whether outsourcing had increased employee productivity in their parastatals, 58.3% (21) of the respondents agreed with the statement while 11.1% (4) strongly agreed. Neutral, disagree and strongly disagree ratings each recorded a response of 5.6% (2) while those who did not respond were 13.9% (5). The resulting mean was 3.7419. From the findings, it can be seen that the majority of the respondents were at least in agreement with the statement. This implies that outsourcing had improved employee productivity in parastatals. Beulen et al. (2012) explain that outsourcing appears to encourage the measurement on the value of Human resourceroductivity. This achieved These findings agree with Schoeman’s (2007) argument that outsourcing can help organizations to expand their total production capacity without heavy investments and develop and/or launch a new



product without heavy investments or risks it can also help them stay on the market with competitive prices, despite high price-pressure and without incurring heavy losses.

When asked whether, outsourcing had improved parastatals' access to skilled personnel, 50.0% (18) of the respondents gave an agree rating followed by 30.6% (11) of the respondents who strongly agreed with the statement. Another 11.1% (4) of the respondents gave a neutral rating. Another 8.3% (3) did not rate this statement. The ratings resulted in a mean of 4.2121 which is greater than 4 (agree). This implies that most of the respondents believed that outsourcing had improved the access to skilled personnel by parastatals. These findings are in tandem with Brown and Wilson (2012) explanation that outsourcing has given organizations capability to access skilled personnel thus enabling them to implement changes that would be hard to implement internally.

The respondents were also asked whether outsourcing had led to improved management of resources. This statement recorded a mean of 3.9375 with the majority of the respondents (61.1%, 22) agreeing with the statement while neutral response was reported by 16.7% (6). Strongly agree and missing response each recorded 11.1% (4) responses. This implies that the majority of the respondents at least agreed with the statement. It is also observable that none of the respondents disagreed or strongly disagreed with the statements implying that through outsourcing parastatals had realized improved management of resources. This is achieved due to the organization's ability to dedicate more time and resources to recruitment and training of employees (Griffin, 2012).

The respondents were also asked to give the level of agreement on whether outsourcing had led to reduced number of employees in outsourced areas. From the findings, 33.3% (12) of the respondents agreed with the statement while 27.8% (10) strongly agreed. Another 25.0% (9) gave a neutral rating while 2.8% (1) of the respondents disagreed with the statement. Another 11.1% (4) of the respondents did not rate this statement. The resulting means was 3.9688. This mean tends towards 4 (agree) indicative of the fact that the majority of respondents were at least in agreement with this statement. This implies that outsourcing had resulted in a reduction of the number of employees in outsourced areas. These findings are in agreement with Elmuti's (2003) explanation that outsourcing leads to cost saving due to decreased number of employees and often help curb inflexibilities associated with recreation leave, absenteeism and career development.

When asked whether outsourcing had led to standardization of operations' environment, half of the respondents (50.0%, 18) agreed with the statement while 13.9% (5) strongly agreed. Another 25.0% (9) gave a neutral rating while 2.8% (1) disagreed with the statement. Another 8.3% (3) of the respondents did not rate this statement. These ratings resulted in a mean of 3.8182. This implies that the majority of the respondents were at least in agreement with this statement. This implies that outsourcing had led to standardization of operations' environments in parastatals from which the respondents were drawn. These findings agree with Griffin and Wilson's (2012) assertion that outsourcing has been used to bring different parts of the organization together to reduce costs, apply common standards and share best practices.

This study also sought to establish whether outsourcing had led to better use of time by employees. From the findings, 47.2% (17) of the respondents agreed with this statement while 19.4% (7) strongly agreed. Another 16.7% (6) gave a neutral rating while disagree and strongly disagree were reported by 8.3% (3) and 5.6% (2) of the respondents respectively. Only one (2.8%) respondent did not rate this statement. The resulting mean was 3.6857 indicative of the fact that the majority of the respondents agreed with the statement. This implies that outsourcing had led to better time use by employees in the parastatals from which the respondents were drawn. This points to the fact that outsourcing in parastatals had led to improved efficiency in parastatals. These findings elude Griffin's (2012) explanation that through outsourcing institutions are able to improve employee efficiency thus allowing small companies to compete with big ones because firms can engage in conducting their business functions (Griffin, 2012). Griffin and Moorhead (2010) add that organizations do not need spend too much time and resources on hiring personnel who have a lot of experience in that field of expertise.

When asked whether, outsourcing had improved overall performance of parastatals, half of the respondents (50.0%, 18) gave an agree rating while neutral and strongly agree were each reported by 22.2% of the respondents. Another 5.6% (2) of the respondents did not rate this statement. The resulting mean was 4.0000 implying that most of the respondents at least agreed with the statement. Noteworthy is that fact that none of the respondents disagree with the statement implying that outsourcing had a positive impact of performance. These findings is an illustration of Quinn's (2000) explanation that outsourcing would be beneficial to organizational performance by allowing companies to enhance expertise, improve service

quality, reduce staff, streamline the process of recruitment, lower costs and reduce the administrative burden and saving time.

Further this study sought to determine the effect of outsourcing on service quality by asking the respondents to give their level of agreement on whether outsourcing had improved service availability. From the findings, 36.1% (13) of the respondents gave a neutral rating while 25% (9) agreed with the statement. Another 16.7% (6) of the respondents gave a strongly agree rating while disagree and strongly disagree recorded 19.4% (7) and 2.8% (1) responses respectively. The resulting mean was 3.9667. This mean tends toward 4 (agree) indicative of the fact that the majority of the respondents agreed to the statement despite the divided response. This implies that generally outsourcing had improved service availability in parastatals. These findings echo Beulen et al. (2012) argument that outsourcing is precipitated by the need for service-level improvements which are promoted by the agreement between the service provider and the outsourcing organization on the service-level agreements and key performance indicators with a greater focus on customer satisfaction.

When asked whether, outsourcing had led to improved reliability, responsiveness and assurance of services in the parastatals, most of the respondents 44.4% (16) agreed with the statement followed by 25.0% (9) of the respondents who strongly agreed with the statement. Neutral was reported by 22.2% (8) of the respondents while disagree and none response recorded an equal response of 2.8%. The resulting mean was 3.9706 indicative of the fact that the majority of the respondents were in agreement with the statement. This means that through there had been improved reliability, responsiveness and assurance of services in parastatals in Kenya. These findings echo improved service delivery implying that outsourced services being provided by specialist thus enabling organizations to access competent personnel (Brown & Wilson, 2012).

Moreover, the respondents were asked whether outsourcing had improved the extent to which end-users were satisfied with the outsourced services. From the findings, the ratings resulted in a mean of 3.8286. This mean is greater than 3 and tends towards 4 (agree). Study results also show that 47.2% (17) of the respondents gave an agree rating followed by those who gave a strongly agree rating totaling to 19.4% (7). On the other hand, disagree rating recorded a 5.6% (2) response while a quarter of the respondents (25.0%, 9) gave a neutral rating. This means that the majority of the respondents were in agreement with the statement

indicative of the fact that outsourcing had led to improvement of service delivery resulting in satisfaction of end-users.

When asked whether outsourcing had promoted the growth of parastatals, 41.7% (15) of the respondents agreed with the statement while strongly agree recorded a response of 33.3% (12). Another 19.4% (7) of the respondents gave a neutral rating while strongly disagree recorded a response of 5.6% (2). The resulting mean was 3.9722 which tend towards 4. This implies means that the majority of the respondents at least agreed with the statement. This implies that outsourcing had promoted growth in parastatals. These findings agree with Hill and Jones (2012) explanation that outsourcing also gives companies the opportunity of expanding. This is particularly true since its enables companies to concentrate on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. This eventually improves their business sizes (King, 2002).

The respondents were asked to rate a statement on whether outsourcing allows small companies to compete with big ones due to the engagement in conducting business functions. From the findings, most of the respondents (58.3%, 21) agreed with the statement while 19.4% (7) strongly agreed. Another 11.1% (4) gave a neutral rating while disagree and strongly disagree recorded a response of 2.8% (1). Another 5.6% (2) of the respondents did not rate this statement. This statement's rating resulted in a mean of 3.9412 indicative that the majority of the respondents were at least in agreement with this statement. This implies that through outsourcing competition between big and small companies was leveled thus allowing small companies to participate in business functions in big organizations. Griffin and Moorhead (2010) add that outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the core business functions of a company. This enables companies can therefore concentrate on aspects of business that they encircle their business objectives and this eventually improves their business functions (Griffin & Moorhead, 2010).

From the interview findings, it was found out that outsourcing had not had any tangible effect on productivity. This was attributed to the laxity among service providers and corruption in the procurement system. This was attributed to the lack of motivation, job insecurity, lack of accountability, teamwork, and focus on quality delivery of service among

the employees and service providers. However, the respondents expressed their hope and this would change especially with the performance contracting among employees who supervise service providers and public procurement regulation.

#### **4.12 Effect of Outsourcing on Employee Productivity**

The multiple linear regression analysis models the relationship between the independent variable which was outsourcing represented by the six forms of outsourcing; public private partnerships, contracting out, load shredding, volunteers, franchising, and vouchers and the dependent variable which was employee productivity. The multiple linear regression analysis models the relationship between the independent variable which was outsourcing represented by the six forms of outsourcing; public private partnerships, contracting out, load shredding, volunteers, franchising, and vouchers and the dependent variable which were operational cost, employee productivity and innovation.

To establish the effect of outsourcing on employee productivity, the six forms of outsourcing; public private partnerships, contracting out, load shredding, volunteers, franchising, and vouchers were made the independent variables while employee productivity was the dependent variable. The coefficient of determination ( $R^2$ ) and correlation coefficient ( $r$ ) shows the degree of association between outsourcing and employee productivity. The research findings indicated that there was a very strong positive relationship ( $R = 0.504$ ) between the variables. The study also revealed that 25.4% of employee productivity could be explained by outsourcing in selected parastatals in Kenya. The findings are as shown in the Tables 4.14 below.

***Table 4.14 Model Summary***

R	R Square	Adjusted R Square	Std. Error of the Estimate
.504	.254	.041	1.02719

*Source: Primary data*

Table 4.15 below shows the results of ANOVA test which revealed that the combined independent variables did not have a significant effect on employee productivity. This can be explained by low F values (1.194) and high p values (0.348) which is statistically insignificant at 95% confidence interval. This therefore implies that outsourcing does not have any tangible effect on employee productivity in parastatals in Kenya. These findings

are contrary to Beulen et al. (2012) argument that outsourcing leads to increased productivity. This could be attributed to the imminent loss of management control and insecurity thus calling for careful evaluation of the outsourcing company to make sure the organization's data is protected and the contract has a penalty clause if an incident occurs (Beulen et al., 2012). This will help in ensuring confidentiality of sensitive information whose security and control should not be compromised.

**Table 4.15 ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.557	6	1.259	1.194	.348
Residual	22.158	21	1.055		
Total	29.714	27			

Source: Primary data

Table 4.16 shows the results of regression coefficients which reveal that a positive effect was reported for all forms of outsourcing except load shedding (-2.65) and public private partnerships (-0.49). Study results also showed that none of the forms of outsourcing was statistically significant except volunteers with a p value of 0.046 and a t value of 2.027 while all the other forms recorded p-values greater than 0.05 and t-values less than 1.96. This means that at 95% confidence level, the variables produce statistically insignificant values for this study except volunteers.

**Table 4.16 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.998	1.133		1.764	.092
contracting out	.187	.278	.153	.674	.508
Franchising	.132	.235	.130	.562	.580
Volunteers	.359	.177	.439	2.027	.046
Load shedding	-.265	.309	-.288	-.860	.399
Vouchers	.094	.315	.107	.297	.769
public private partnerships	-.049	.228	-.045	-.216	.831

Source: Primary data

Moreover, study results of the regression equation shows that for a 1- point increase in the independent variables, employee productivity in parastatals in Kenya predicted to increase by 1.998, given that all the other factors are held constant. This implies that whereas outsourcing had undesirable effect on the employees thus not yielding improved productivity, the aggregate effect on the productivity was positive with the volunteers in the organization yielding the highest productivity levels. This could be attributed to the fact that the volunteers did not feel threatened by outsourcing since they did not hold permanent and pensionable positions in the organizations. The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

$$Y = 1.998 + 0.187X_1 + 0.132X_2 + 0.359X_3 - 0.265X_4 - 0.094X_5 - 0.049X_6$$

Where

$\beta$  is a correlation coefficient

Y= Innovation

X<sub>1</sub>= contracting out

X<sub>2</sub>= Franchising

X<sub>3</sub>= Volunteers

X<sub>4</sub>= Load shedding

X<sub>5</sub>= Vouchers

X<sub>6</sub>= Public private partnerships

## **CHAPTER FIVE**

### **FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of this study was to establish the effect of outsourcing on employee productivity in selected parastatals. In this section, a summary of findings obtained during the study are discussed, the findings will then be related to the research questions, the researcher general conclusion about the results and recommendations based on the research objectives. The research objectives were to establish the forms of outsourcing used in selected parastatals in Kenya, to find out the effect of outsourcing on operational cost, to determine the effect of outsourcing on employee productivity and to establish the effect of outsourcing on innovation in the selected parastatals.

#### **5.2 Summary of Key Findings**

##### 5.3.1 Forms of outsourcing and outsourced activities

Findings on the forms of outsourcing used showed that contracting out was one of the most popular form of outsourcing used by parastatals shown by the recorded highest mean of 3.8571 followed by load shedding and volunteers which recorded means of 3.3438 and 3.2353 respectively. Franchising recorded a mean of 3.0606 while vouchers and public-private partnerships recorded means below 3.0 (2.6364 and 1.9722) respectively. These findings imply that contracting out was one of the main forms of outsourcing used by parastatals in Kenya. Additional findings from the interviews were in tandem with these findings with these findings. Interview results revealed that contracting out was the most popular form of outsourcing used in parastatals. The interviewees also reiterated that PPPS was also on the rise. Similarly outsourcing in parastatals was reported to be effective by both the interview respondents and questionnaire respondents with at least 67.6% (25; effective and very effective ratings combined) respondents giving at least effective response. The services outsourced in parastatals were mainly all the interviewees explained that their institutions outsourced cleaning, security, refuse collection and building maintenance completely to service providers. Two of the six interviewees explained that training and development, transportation, and building maintenance were some of the activities that were partially outsourced. None of the parastatals outsourced functions on administration, human resource and IT. This implies that parastatals in Kenya subcontracted on core functions following the UK pattern. These findings are in tandem with Hsiao's (2011) argument



that most organization functions which most commonly outsourced by UK organizations include cleaning, catering, security, transportation and building maintenance.

### **5.2.2 Impact of outsourcing on operational cost of firms**

Results on the statements rated were as follows: Due to outsourcing, our institution has been able to refocus on core business (mean 4.1944), Outsourcing has improved overall operational cost efficiency (mean 4.0278), Outsourcing has enabled control of expenses of outsourced activities (mean 3.8857), Outsourcing has achieved cost savings in the operations of the parastatals (mean 3.611), Outsourcing has led to improved management of resources (mean 3.8571), outsourcing led to reduced number of employees in outsourced areas (mean 3.8611), and outsourcing has led to the transformation of some fixed costs into variable costs (mean 3.7500). These findings indicate that all statements recorded means of at least mean 3.611 which is greater than 3 (neutral/neither agree nor disagree) and tends toward 4 (agree) indicative that the majority of the respondents were at least in agreement with the statement. These findings are in tandem with the interview findings which indicated that outsourcing had led to the reduction in operational costs through cost saving, reduction in the number of employees, and better resource management. These findings agree with the argument by Lawler and Boudreau (2009) outsourcing is instrumental in operational cost reduction and saving in organizations.

Additional regression analysis findings where cost reduction was the dependent variable and different forms of outsourcing were the independent variables revealed that there was a positive relationship ( $R = 0.4658$ ) between the variables. The study also revealed that 43.2% of reduction in operational cost in selected parastatals in Kenya could be explained by outsourcing of services and functions. In addition, ANOVA test results revealed that the combined independent variables; different forms of outsourcing have a significant effect on operational cost in selected parastatals in Kenya. This can be explained by high F values (5.175) and low p values (0.019) which is statistically significant at 95% confidence interval. Regression coefficients (B) which reveal that a positive effect was reported for all the forms of outsourcing used in parastatals except for franchising (-0.060), load shedding (-0.374) and public private partnerships (-0.029). Further, the results showed that at 95% confidence level, contacting out (0.026, load shedding (0.036) and volunteers (0.010) were statistically significant since the p values were less than 0.05) and the t values were high (greater than 1.96). Further, study results shows that for a 1- point increase in the independent variables,

innovation in selected parastatals in Kenya is predicted to increase by 2.847, given that all the other factors are held constant. These findings point to the fact that outsourcing had a positive effect on the reduction of operational costs as argued by Kakumanu and Portanova (2006) who note that the main driver in outsourcing is often cost reduction.

### **5.2.3 Effects of outsourcing on employee innovations**

Study findings on the effect of outsourcing on innovation revealed that it had significant effect on innovation. Rated statements on innovation and outsourcing show that outsourcing has led to innovations in our institution recorded a mean of mean 4.0278, while outsourcing has provided our institution with opportunities to add more experts to their resource pool recorded a mean of 4.0000. Other statement rated include: due to outsourcing, our institution has added to the mix of problem solvers resulting in better goal achievement (mean 4.1176), outsourcing has allowed our institution to restructure their activities towards innovation (mean 4.0857), outsourcing has led to improved service quality (mean 3.9091), outsourcing has improve the information sharing and the ability of the firm to use new technologies (mean 4.0000), outsourcing has increased the productivity of investment in knowledge (mean 4.0286), and outsourcing has provided long term benefits on innovation (mean 3.9429). All the rated statements recorded a mean of at least mean 3.9091. Similarly, interview study findings results showed that outsourcing had resulted in innovation benefits to parastatals through improved problem solving, service delivery, access to experts and restructuring.

Despite the effects of outsourcing on innovation, regression of innovation as the dependent variable and different forms of outsourcing as the independent variables revealed that the effect was not statistically significant although 29.7% of innovation in selected parastatals in Kenya could be explained by different forms of outsourcing adopted. Further, volunteers, vouchers and PPPs had negative intercept values indicative that their effect on innovation was negative. Further a 1- point increase in the independent variables, innovation in selected parastatals in Kenya is predicted to increase by 1.958, given that all the other factors are held constant. Despite the insignificant effect of outsourcing, there is potential in innovation since it enables organizations to gain long term success, access to experts, restructure, use new technologies and improved information sharing and return on investment (Jansen & Stonecash, 2004; Elmuti, 2003; Hodge, 2009).

#### **5.2.4 Influence of outsourcing on employee productivity**

Outsourcing Study findings on the effect of outsourcing on productivity revealed that outsourcing had a positive effect on productivity shown by the means of at least mean 3.7419 on the rated statements. The statements were: outsourcing has led to increased employee productivity (mean 3.7419), outsourcing has led to access to skilled personnel (mean 4.2121), It has led to improved management of resources (mean 3.9375), outsourcing led to reduced number of employees in outsourced areas (mean 3.9688), outsourcing led to standardized operations environment (mean 3.8182), outsourcing has led to better use of time by employees (mean 3.6857), outsourcing has improved overall performance of the parastatal (mean 4.0000), there has been improved service availability (mean 3.9667), there has led to improved reliability, responsiveness and assurance of services (mean 3.9706), outsourcing improved the extent to which users are satisfied with outsourced services (mean 3.8286), outsourcing has promoted our growth as an institution (mean 3.9722), due to outsourcing, and outsourcing has been able to allows small companies to compete with big ones because firms can engage in conducting their business functions (mean 3.9412). These findings were echoed by the interview respondents. However, they indicated that the effects on productivity were not tangible due to lack of commitment from service providers and laxity in supervising service providers by parastatal's staff.

The multiple linear regression analysis models where the independent variables were the different forms of outsourcing and the dependent variable were productivity revealed that there was a very strong positive relationship ( $R= 0.504$ ) between the variables. The study also revealed that 25.4% of employee productivity could be explained by outsourcing in selected parastatals in Kenya. Study findings also indicate that the effect of outsourcing on employee productivity was not statistically significant shown by low F values (1.194) and high p values (0.348) which is statistically insignificant at 95% confidence interval. In addition, positive effect on productivity was reported for all forms of outsourcing except load shedding (-2.65) and PPPs (-0.49) with a 1- point increase in the independent variables, employee productivity in parastatals in Kenya predicted to increase by 1.998, given that all the other factors are held constant. This means that outsourcing generally had a negative effect on employee productivity in parastatals which is contrary to Beulen et al. (2012) argument that outsourcing leads to increased productivity. This could be attributed to the imminent loss of management control and insecurity thus calling for careful evaluation of the outsourcing company to make

sure the organization's data is protected and the contract has a penalty clause if an incident occurs (Beulen et al., 2012).

### **5.3 Conclusions**

From the study findings, it was concluded that contracting out was the most common form of outsourcing used in parastatals in Kenya while PPPs was the least used form of outsourcing in parastatals. In addition this study also concluded that there was general effectiveness of outsourcing in parastatals which was highly attributed to the public procurement regulation by the interview respondents.

Moreover, this study concludes that outsourcing has a significant effect on operational cost resulting in operational cost reduction in parastatals in Kenya. Cost reduction was mainly cost saving, better resource management and reduction in the number of employees thus promoting of parastatals' overall cost efficiency. However, despite the positive effect outsourcing had on operational cost reduction, not all forms of outsourcing had a positive effect on outsourcing. Franchising (-0.060), load shedding (-0.374) and public private partnerships (-0.029) had a negative effect on outsourcing.

Study findings on the effect of outsourcing on innovation in parastatals showed that outsourcing does effect innovation through access to a pool of experts, restructuring, improved service delivery, information sharing and use of new technologies. Further, the effect of outsourcing on innovation in parastatals was not significant which was attributed to lack of adequate funding, tools and equipment that use modern technology.

Study results showed that outsourcing had a positive effect productivity however, the effect was found to be statistically insignificant. The reasons behind this could be lack of motivation, job insecurity, lack of accountability, teamwork, and focus on quality delivery of service among the employees and service providers. This shows that the negative effects of outsourcing on employee productivity had not been mitigated in parastatals.

### **5.4 Recommendations**

From the above findings, the following recommendations were made:

There is need to promote the use of other forms of outsourcing in parastatals in Kenya. Study findings revealed that contracting out was the most popular method used by parastatals. On the contrary, PPPs, load shedding, volunteers, franchising, and vouchers were hardly used in

the parastatals. To effectively do this, there is need to evaluate the factors that make contracting out thrive and the risks emanating from each form of outsourcing in order to ensure that their implementation is effective.

Furthermore, this study given the significant effect of outsourcing on operational cost reduction, this study recommends that the factors that lead to the negative contribution of franchising, load shedding and PPPs on cost reduction be investigated and remedies put in place. This will ensure that parastatals reap full benefits of outsourcing.

This study also recommends that parastatals look into their outsourced services and reevaluate the value add to innovation with a view of promoting its contribution to innovation. This is based on the fact that whereas outsourcing had effect on outsourcing, the effect was not significant.

Finally, this study established that outsourcing did not have significant effect on both innovation and productivity. Some of the reasons behind it was lack of supervision and lack of motivation. Consequently this study recommends that parastatals device ways and means of improving employee motivation. The study also recommends effective communication on outsourced services and information of employees on their contribution and role on the outsource services. This will result in teamwork and improved service delivery. This is because motivation is most hurt by outsourcing if no proper communication and provision of information on outsourced services is provided.

### **5.5 Recommended Areas for Further Study**

From the findings of this study, which found out that outsourcing affects employee productivity, cost reduction and innovation, its effect on productivity was found to be insignificant. It is in this view that this study recommends that a study be carried out to establish the factors that influence employee productivity in parastatals in Kenya. The study on the factors that influence the form of outsourcing used in parastatals should also be carried out. This recommendation is premised in the fact that contracting out was the only form of outsourcing which was found to be common in parastatals in Kenya. A study on the risks emanating from outsourcing in parastatals should also be carried out.

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## APPENDICES

### Appendix 1: Introduction Letter to the Respondents

KABARAK NIVERSITY,  
PRIVATE BAG,  
NAKURU,KENYA.

#### **TO WHOM IT MAY CONCERN**

Am a students from Kabarak University undertaking masters in business management -MBA (strategic management option ) conducting a research on **“ANALYSIS OF THE EFFECTS OF OUTSOURCING ON ORGANIZATION PRODUCTIVITY IN SELECTED PARASTATALS IN KENYA**

”I humbly request for your co-operation to assist me to complete this research.I assure you that the information that you provide will be for academic purposes and will be treated with a lot of confidentiality. Your participation will be highly appreciated.

Yours Sincerely,

Dominick Kiptum

**GMB/NBE/0662/05/12**

Student

**Appendix 2: Questionnaire**

1. Gender                      Male ( )      Female ( )

2. Age category

- Up to 24 years                      ( )
- 25 -35 years                      ( )
- 35 to 45 years                      ( )
- 45 to 55 years                      ( )
- Over 55 years                      ( )

3. Highest level of education

- KCSE                      ( )
- Certificate                      ( )
- Diploma                      ( )
- Bachelor's degree                      ( )
- Postgraduate degree                      ( )

**SECTION B: OUTSOURCED ACTIVITIES**

4. To what extent are the following forms of outsourcing used in your parastatal?

key: 1= very little extent, 2= little extent, 3=average, 4= large extent, and 5= very large extent.

	1	2	3	4	5
Outsourcing in our institution involves competitive bidding process/contracting out					
Some services are offered by volunteers at no cost on behalf of the institution/volunteers					
Our institution has relinquished the responsibility for providing services or operating a program/ load shedding					
Our parastatals is involved in licensing private service providers to exclusively provide public services in a particular area/franchising					
Vouchers are used to pay for goods and services in our parastatal					
Local stakeholders help to provide a program, project, or service of a particular value to a local community or neighborhood/ Public-Private Partnerships					

**SECTION C: OUTSOURCING EFFECT ON OPERATINAL COST**

5. Please the following statements relating the effect of outsourcing on operational cost in your parastatal.

	1	2	3	4	5
Due to outsourcing, our institution has been able to refocus on core business	0.0	0.0	13.9	52.8	33.3
Outsourcing has improved overall operational cost efficiency.	0.0	2.8	16.7	55.6	25.0
Outsourcing has enabled control of expenses of outsourced activities	2.8	5.6	22.2	36.1	30.6
Outsourcing has achieved cost savings in the operations of the parastatals	5.6	11.1	22.2	38.9	22.2

Outsourcing has led to improved management of resources	2.8	2.8	22.2	47.2	22.2
Led to reduced number of employees in outsourced areas	0.0	0.0	33.3	47.2	19.4
Has led to the transformation of some fixed costs into variable costs	2.8	2.8	27.8	50.0	16.7

**SECTION D: OUTSOURCING EFFECT ON INNOVATION**

6. Please the following statements relating the effect of outsourcing on innovation in your parastatal.

Key: strongly agree=5, agree=4, neutral=3, disagree=2, and strongly disagree=1

Statements	1	2	3	4	5
Outsourcing has led to innovations in our institution					
Outsourcing has provided our institution with opportunities to add more experts to their resource pool					
Due to outsourcing, our institution has added to the mix of problem solvers resulting in better goal achievement					
Outsourcing has allowed our institution to restructure their activities towards innovation					
Outsourcing has led to improved service quality					
Outsourcing has improve the information sharing and the ability of the firm to use new technologies					
Outsourcing has increased the productivity of investment in knowledge.					
Outsourcing has provided long term benefits on innovation					

**SECTION E: OUTSOURCING EFFECT ON PRODUCTIVITY**

7. The following statements relating the effect of outsourcing on productivity in your parastatal.

Key: strongly agree=5, agree=4, neutral=3, disagree=2, and strongly disagree=1

	1	2	3	4	5
Outsourcing has led to increased employee productivity					
Outsourcing has led to access to skilled personnel					
It has led to improved management of resources					
Led to reduced number of employees in outsourced areas					
Led to standardized operations environment					
Outsourcing has led to better use of time by employees					
It has improved overall performance of the parastatal					
There has been improved service availability					
There has led to improved reliability, responsiveness and assurance of services					
It improved the extent to which users are satisfied with outsourced services					
Outsourcing has promoted our growth as an institution					
Due to outsourcing, has been able to allows small companies to compete with big ones because firms can engage in conducting their business functions					

### **Appendix 3: Interview Guide**

1. What are the forms of outsourcing used in this parastatal?
2. Which services does your institution outsource?
3. Is outsourcing effective in this institution?
4. How does outsourcing affect operational cost?
5. How does outsourcing affect innovation?
6. How does outsourcing affect productivity?



#### **Appendix 4: List of parastatals**

Agricultural Development Corporation  
Agricultural Finance Corporation  
Bomas Of Kenya Limited Capital Markets Authority  
Catering and Tourism Development Levy Trustees  
Coffee Board Of Kenya  
Commission For Higher Education  
Communication Commission of Kenya  
Consolidated Bank Of Kenya  
East African Portland Cement Co.  
Egerton University  
Export Processing Zone Authority  
Export Promotion Council  
Higher Educations Loans Board  
Horticultural Crops Development Authority  
Insurance Regulatory Authority  
Industrial and Commercial Development Corporation  
Jomo Kenyatta University Of Agriculture and Technology  
Kenya Accountants and Secretaries National Examinations Board(KASNEB)  
Kenya Airports Authority  
Kenya Anti-corruption Authority  
Kenya Broadcasting Corporation  
Kenya Bureau Of Standards  
Kenya Civil Aviation Authority  
Kenya College of Communication and Technology  
Kenya Dairy Board  
Kenya Electricity Generating Company  
Kenya Ferry Services Limited  
Kenya Forestry Research Institute

Kenya Industrial Estates  
Kenya Industrial Research & Development Institute  
Kenya institute of Administration  
Kenya Institute of Public Policy Research and Analysis  
Kenya Literature Bureau  
Kenya Marine and Fisheries Research Institute  
Kenya National Examination Council  
Kenya National Library Services  
Kenya National Shipping Line  
Kenya Ordinance Factories Corporation  
Kenya Pipeline Company  
Kenya Plant Health Inspectorate Services  
Kenya Ports Authority  
Kenya Post Office Saving Bank  
Kenya Railways corporation  
Kenya Revenue Authority  
Kenya Roads Board  
Kenya Safari Lodges & Hotels  
Kenya Sugar Board  
Kenya Sugar Research Foundation  
Kenya Tourist Board  
Kenya Tourist Development Corporation  
Kenya Utalii College  
Kenya Wildlife Service  
Kenyatta International Conference Center  
Kenyatta University  
Lake Victoria South Water Services Board  
Local Authority Provident Fund  
Maseno University  
Moi University  
National Bank Of Kenya  
National Cereals and Produce Board

Council For Law Reporting  
National Environmental Management Authority  
National Hospital Insurance Fund  
National housing Corporation  
National Irrigation Board  
National Museums Of Kenya  
National Oil Corporation Of Kenya  
National Social Security Fund  
National Co-ordinating Agency for Population and Development  
NEW KCC  
NGO's Co-ordination Bureau  
Pest Control Products Board  
Public Procurement Oversight Authority  
Postal Corporation Of Kenya  
Pyrethrum Board Of Kenya  
Retirement Benefits Authority  
Sports Stadia Management Board  
Tea Board Of Kenya  
Tea Research Foundation Of Kenya  
Teachers Service Commission  
Telkom Kenya  
University Of Nairobi  
Agricultural Development Corporation

