BUSINESS PROCESS OUTSOURCING AND OPERATIONAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

JOAN NYARIARA NJORO

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DECLARATION

I declare that this project is my original work and has not been presented for any academic award in any other university.

Signed…………………………… Date…7/11/2022…………

Joan Nyariara Njoro

D61/70877/2014

Approval by the Supervisor

This project is submitted for examination with my approval as the university supervisor.

Signed…………………… Date: 7/11/2022

Ernest Akelo

Department of Management Science and Project Planning

University of Nairobi

DEDICATION

I dedicate my work to my grandparents the late James Njoro Kibutiri and the late Joyce Nyariara Njoro. Thank you for always reminding me that “Education is one thing no one can take away from you.”-Elin Nordegren

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ABRREVIATIONS AND ACRONYMS

BPO	Business Process Outsourcing
ATM	Automated Teller Machine
POS	Point of Sale
RBV	The Resource-Based View
TCE	Transaction Cost Economics
IT	Information Technology
HRM	Human resource Management
SPSS	Statistical Package for Social Sciences
ILRI	International Livestock Research Institute
CCK	Communication Commission of Kenya

ABSTRACT

The general purpose of the research was to establish the impact of business process outsourcing on the operational performance of commercial banks in Kenya. The specific objectives were to establish the level of business process outsourcing adoption in commercial banks in Kenya and to determine the relationship between business process outsourcing and operational performance of commercial banks in Kenya. The study was underpinned by resource-based view, transaction cost theory, and agency theory. The research used a descriptive cross-sectional study. The target populace of the research was all the commercial banks in Kenya. The research was a census survey and thus the 42 commercial banks were used. A questionnaire was the designated instrument or tool for the collection of data for the research. To examine the level of business process outsourcing adoption quantitative data collected from the closed-ended questions was examined by the use of descriptive statistics. This involved the use of averages, standard deviations, percentages and frequencies. The data was presented by the use of tables and in prose-form. A multiple linear regression analysis was used to assess the association amid business process outsourcing and operational performance. The study concludes that information technology services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The commercial banks have engaged external specialists for activities such as data security management, system maintenance services and ATM management. Human resource management services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The banks contracts recruitment agencies in the hiring process, their employee training services and also for team building services. Security services outsourcing positively and significantly increases operational performance in commercial banks in Kenya. The banks premises are guarded by guards from external security companies. Marketing services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The banks contracts marketing consultants for marketing and advertising services such as video content campaigns and for their product branding. The research suggests that banks take steps to ensure that outsourced services are well-documented and that expertise is transferred to internal IT workers, in order to prevent over-reliance on service providers and a loss of control. The study recommends that commercial banks to outsource more human resources management services so as to facilitate concentration on their core activities. There should be an effective mechanism to determine the security services that can be outsourced, those that require internal control and those that can be done in collaboration with the external providers. The banks continue to outsource their marketing services for better operational performances.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The ideology of outsourcing has globally been used for a long period in the commercial industries (Doval, 2016). Despite the fact that most of the outsourcing activities were based on information technologies until late 1990, the main purpose of this activity was to improve the philosophy of achieving operative efficiencies (Karhunen & Kosenen, 2018). According to Pratap (2016), in the past numerous decades, the world has witnessed the remarkable advancement and usage of business process outsourcing in diverse areas such as production sectors, manufacturing sectors, and innovation sectors. In reality, the concept of outsourcing has remained the notion of the long-term investment that is dedicated to achieving the organization’s overall benefits and goals. Outsourcing plays an important position in the improvement of the organization's performance by either improving a company’s competitive situation in the market or by improving the shareholder’s returns.

The concept of business process outsourcing is anchored on various theories. The resource-based view proposition is that a business that has inadequate, rare, prized, unmatched and organized assets and competences usually looks for another company in order to provide resources on its behalf and in this way, it is able to deliver services without necessarily showcasing its weaknesses. As opined by Geyskens, Steenkamp and Kumar (2016), according to the transaction cost theory, comparative production and cost of transactions are usually associated with the development and services are the key determinants as to whether to outsource or not to outsource. Initially, the agency theory put an emphasis on the association that exists between managers and the stakeholders (Hill & Jones, 1992) over time; the theory had spread and gave an explanation on the association that existed between the two inter-company topics. In this setting, the agency theory tries to give an explanation to the kind of relationship that exists between the people outsourcing services and those who deliver the services. The research was, therefore based on the resource-based concept, transaction cost concept and agency concept.

In the business world, competition is usually quite high and therefore, firms have to try and maintain their standards by outsourcing services in which they are weak at and focus on those services where their strength lies and this has to be decided as a strategy to remain competitive. In the age of the global economy and market, a firm usually develops and maintains its relationships with other firms through outsourcing some of the services that it cannot deliver. This way, outsourcing is a backbone in relationships between firms. Businesses use outsourcing as a strategy in order to meet demands (Kolawole & Agha, 2015).

1.1.1 Business Process Outsourcing

Sometimes a firm may outsource a service that could have been done in-house or has previously been done in-house. Such a case is what is referred to as business process outsourcing (Tas & Sunder, 2017). Business process outsourcing (BPO) entails contracting of operations and responsibilities to a third-party service provider who is an expert in the field. The functions are normally of specific nature. BPO is the process of awarding noncore activities that are information technology centered business activities to an external provider who is an expert in certain areas to undertake the management of non-core procedures based on measurable and defined performance metrics (Sople, 2016).

The functions and activities of business process outsourcing are divided into two categories: those that span across several sectors and those that are exclusive to a single industry. Business Process Outsourcing falls into two categories: outsourcing of backup offices, which usually includes internal activities such as promoting and buying, and outsourcing of forward-facing offices, which comprises of customer-related amenities such as promotion and technical provision. Overseas BPO is also referred to as foreign outsourcing. BPO contracts with the company's neighboring state are sometimes referred to as nearshore outsourcing, while BPO contracts with the company's home country are sometimes referred to as internal outsourcing (Lee & Kim, 2015).

The main drive for outsourcing, according to Lonsdale and Cox (2018), is flexibility. Firms outsource in order to have greater temporal flexibility, such as great resource management flexibility and greater control over the quality of services and operations, as a result of technological developments. Overall, business process outsourcing allows firms to concentrate on core areas in order to provide customers with unique value (Giustiniano & Clarioni, 2013). There are various goals of outsourcing and some of them are: enhanced efficiencies, minimizing costs, enhanced quality and increased chances of gaining a competitive advantage over competitors. A firm will concentrate on core areas and utilize qualified third parties or vendors to provide services that a firm may or may not be able to provide adequately.

Some of the outsourced services within the banking sector include cash management and security services including protection, distribution and delivery of cash, financial services, debt collection, call centers, maintenance of software services, imprinting of credit and debit cards, ATM’s and POS device operations, human resource functions, document processing and record management, portfolio analytics and marketing.

1.1.2 Operational Performance

Operational performance refers to how a firm delivers its services to its clientele in terms of flexibility, quality and efficient delivery of its services hence good performance. Operational performance can also refer to service and cost performance. Service performance is usually used in the measurement of operational service performance, with regards to the quality of the service, within what time the service is delivered and also how flexible the delivery is (Lin & Hong, 2016).

Operational performance is an important constituent of the overall performance. Inman and Green, (2018) opine that performance in an operational way refers to the organizational achievement of results based on predictable results. According to Berger and Mester, (2019) results are usually founded on the eminence of amenities and products, haste of product and service distribution, flexibility, and dependability. When it comes to banking, operations performance includes development towards improving the number of clienteles, the share in the market and the likely yields or shareholder yields.

To achieve the goals of the firm, the activities carried out in banking institutions should be resourceful and operative. Resourcefulness is the span to which clients' requirements are satisfied whereas being operative is a ratio of how economical the establishments’ resources are employed. In order to allow for the correct valuation and assessment of effective enactment, the right measurement tactics must be planned, applied and well upheld by the users of the precise procedure. They may find the need of calculating the process's usefulness, its competence, its quality influence and general output (Rompho, 2018).

As opined by Kerdpitak (2020), at its core, outsourcing is important for any company unable to complete processes internally due to a lack of time, funds, or expertise. In general, outsourcing allows businesses to enhance operating effectiveness, efficiency, minimize operational risk, and maximize productivity by further consolidating and centralizing functions. Banks who want to hold it in-house also end up with a tangle of vertically organized silos, resulting in a lot of duplication and complexity across sectors and markets. In the context of this study, the measures of operational performance were thus cost reduction, service and product quality, and efficiency.

1.1.3 Commercial Banks in Kenya

Kenya banking business is under the Banking Act, the Companies Act, the Central Bank of Kenya Act and the Central Bank prudential procedures. In particular, the central bank is accountable for developing and executing financial policies to improve the fluidness of the financial system (Chepak, 2015). The dissemination of information to the Kenya banking sector is the sole responsibility of the Kenyan Central Bank. The governing body of Kenyan banking institutions is known as the Kenya Banking Association, which solves banking problems and protects the interests of the relevant institutions.

As per the Central Bank of Kenya, there are 42 accredited profit-making banks and 1 Mortgage Finance Organization in Kenya. Three of those banks are public financial organizations with the majority of the ownership being the Government and state businesses. The rest are private financial organizations. 26 of the private commercial banks are owned locally, while 13 of them are owned by foreigners.

The banking sector is vital to the development of an economy since it aids in attracting and gathering deposits from savers. Also, it is important because of its part in provision of credit facilities to encourage production and investment. Thirdly, the banking sector has a huge impact towards economic expansion of various sectors such as the trade and agricultural sector. Fourthly, finance acts as an intermediary between savers and debtors. Lastly, the banking industry has a huge contribution towards the creation of primary capital for investment schemes (Chepkoech, 2015).

Over the years, Kenya's banking segment has sustained growth in terms of deposits, profitability, assets and product offerings. This development was driven primarily by a strategy to expand the network of offices across industries in Kenya and the EAC region, automate an extensive variety of amenities and adaption to complex customer needs and commercially available products. Actors in the region have become more competitive in recent years due to greater innovation among actors (Aluch, Odondo & Nedde, 2018). Commercial banks continue to face performance challenges due to a negative macroeconomic environment and a highly competitive global business environment, a variety of current and future financial markets besides emerging technologies from financial service providers, economic uncertainty, political uncertainty and non-financial financial institutions. New interest rate and disclosure rules have removed some of the benefits of traditionally unique information about banks by making this information readily available to direct and indirect competitors (Central Bank of Kenya, 2018).

The challenges have led the banking industry to undergo a dramatic operational transformation in recent years (Central Bank of Kenya, 2018). The banking segment has had to embrace technological revolution so as to continue being competitive. In pursuit of competitive pluses in the technical-economic provision business, banks have recognized the worth of distinguishing themselves from other monetary organizations through new provision dissemination channels. Commercial banks control a large portion of Kenya's financial system; therefore, their stability is critical. This is due to the fact that the banking sector's failure might have a multiplier effect on the country's economy as a whole.

1.2 Research Problem

Globalization and developments in information technology have transformed the way industries carry out business. In the dynamic world, organizations must stay competitive, for which outsourcing business processes, one of the main results of technical progression is a viable option. Most businesses throughout the world, according to Belcourt (2017), have found it essential to hire outside expertise to undertake various activities that they formerly handled internally. Benefits of outsourcing include cost reduction, improved quality of service, and risk reduction (Globerman & Vining, 2017).

Outsourcing services is accepted as a strategic means that is used to improve the performance of a business. The more a business subcontracts, the higher the growth in the business and the output. Druck (2016) sees peripheral activities as being the ones that are most subcontracted. The rationale for this decision is to allow businesses to cut expenses, increase operational flexibility, increase profitability, focus on core tasks that define the company's existence, and have access to high-quality goods or services from certified specialists.

Outsourcing issues in the banking sector are widespread in emerging economies. Obtaining outsourcing deficiencies and breaches, poor interpersonal conventions, low reliance and commitment, and a shortfall in outsourcing outcomes are all shown by incidental data from Uganda's commercial banks. Kenyan commercial banks have faced fierce competition from both local and foreign institutions, however in spite of the massive advantages and greater performance through outsourcing of amenities and activities in other firms, the majority of commercial banks continue to use the conventional ways of providing services. According to Chepkoech (2017), only non-essential services in Kenyan banking institutions are subcontracted. This may be because outsourcing possesses diverse challenges including the risk of losing confidentiality, and raising security concerns in the banks.

Studies have been conducted globally and locally on outsourcing. Jain and Natarajan (2016) assessed the factors influencing the outsourcing decisions in the banking segment in India and found that professed advantages, professed barricades, and professed criticality on the attitudes towards outsourcing were sturdy and statistically noteworthy. McTernan, (2016) established that the main driver of outsourcing for financial services businesses in Ireland as reduction in cost. Kolawole and Agha's (2015) study on achieving organizational performance through business process outsourcing in Nigeria found that there are risks associated with outsourcing. Locally, Kaveke (2018) assessed the use of outsourcing strategy among shipping companies in Kenya and found that outsourcing is an important element of the corporate strategy. Machua (2018) focused on outsourcing strategies among profit-making banks in Kenya and found that commercial banks partially outsource recruitment services and information technology applications. Ogubi (2020) assessed the issues impacting the embracing of business process outsourcing in Kenya’s mobile phone corporations and revealed the enablers to acceptance of the business process outsourcing were up to standard, safety & reliance on information and profitability whereas the challenges were the rates at which the business processes are outsourced, trade and promotion barricades. The reviewed past studies focused on the factors in the adoption of the outsourcing practices but have hardly revealed the outcomes of business process outsourcing on operational performance in the banking segment. This research filled this knowledge gap by answering the question; what are the effects of business process outsourcing on the operational performance of commercial banks in Kenya?

1.3 Research Objectives

The general purpose of the research was to establish the impact of business process outsourcing on the operational performance of commercial banks in Kenya.
The specific objectives were;

i. To establish the level of business process outsourcing adoption in commercial banks in Kenya.
ii. To determine the relationship between business process outsourcing and operational performance of commercial banks in Kenya.

1.4 Value of the Study

The research may have a real-world influence since it is projected to offer info on the impacts of business process outsourcing on the operational performance of profit-making banks. Thus the managers in commercial banks may be able to adopt strategies that will facilitate smooth adoption and enactment of business process outsourcing. The results may be valuable to other companies in the management of business process outsourcing for their operations performance.

Government policymakers may increase their understanding on the effects of business processing outsourcing in reply to fluctuating competitive surroundings in the banking industry. The findings may be useful to policymakers as they create regulatory requirements for outsourcing companies in Kenya. The policies created may serve as guides for commercial bank administration in determining what components are necessary to ensure better BPO performance.

The research may be of worth in contributing to the body of data relating to business process outsourcing. The findings may also benefit researchers and serve as a reference for future academics working on the same or similar topics. This research may add to the body of knowledge and inspire more research in the area of business process outsourcing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains literature review on the impact of business process outsourcing on performance from previous research, as well as the void that this analysis would fill: a study of hypotheses, research gaps, and empirical studies related to business process outsourcing and efficiency.

2.2 Theoretical Literature Review

The following three theoretical foundations were used in this study: resource-based view, transaction cost theory, and agency theory.

2.2.1 Resource Based View

The resource based view theory was first proposed by Wernerfelt in 1984. The Resource-Based View (RBV) is an economic method for determining a company's strategic capital. The RBV's core premise states that a company's competitive advantage is essentially determined by how well it utilizes the package of valued resources available to it. To transform a short-term advantage into a long-term competitive advantage, these resources must be diverse and not completely transportable. This translates to helpful resources that aren't completely imitable or substitutable without a lot of work (Biermann & Harsch, 2017). If these circumstances persist, the firm's capital will be able to assist it in maintaining above-average returns.

The resource-based approach proposes that a strategy's foundation is built on a company's specific resources and capabilities. The company's strategy must allow them to take advantage of international environmental opportunities in order to maximize their main credentials. Human resources, infrastructure, economic, and physical resources are among them. Organizations with superior products, according to resource-based theories, want to involve resources and abilities in a cost-effective manner. Because some core businesses require low-cost solutions to achieve their core business goals, it's simple to simplify catalog outsourcing using resource-based theory.

The resource-based view on outsourcing posits that a firm can stretch its boundary by constructing bridges to outsourcing partners, allowing access to instantly accessible technology. Outsourcing is seen as a competitive opportunity that enhances capabilities. Thus, firms can outsource some of their activities such as human resource activities, information technology, security services and marketing services to other firms with superior capabilities on such processes to supplement their operations. The resource-based view theory is thus adopted in a bid to reveal the how the business process outsourcing affects operational performance.

2.2.2 Transaction Cost Theory

The exchange cost hypothesis of the business was developed by Coase (1937) as one of the most important neo-old-style hypotheses aiming to explain the firm conceptually conforming to the market. Traditional financial assessment instruments are employed because Coase chooses to classify a business in a way that is both fair and feasible with the potential of replacement at the edge. He observes that an organization's communications with the market might not be strongly affected by its for example in light of transaction costs. If a company operated within the market context, multiple agreements will be required, for example, for obtaining a pen or conveying an introduction. Surprisingly, a real company has less but much more complicated deals, such as defining a supervisor's power of bearing on members in exchange for compensation. These kinds of contracts are made in vulnerable situations, such as long-term connections. This situation contradicts the neo-classical monetary theory. The neo-traditional market is fast-paced, ignoring the development of expanded expert head contacts, planning, and confidence.

Transaction Cost Economics (TCE) is concerned with the level of a firm, and it is essential for understanding corporate administration and firm-level decisions such as provider selection, outsourcing, consolidations, and acquisitions, as well as firm-level cooperation such as coalitions or authoritative arrangements. According to the TCE theorem, a transaction occurs when a good or service is exchanged through an innovatively detachable interface (Williamson, 1993). TCE also considers businesses to be financial actors that make use of the most effective exchange instrument (Williamson, 1983). It emphasizes that there are costs associated with using a business. A company can achieve economies of scale and keep a strategic distance from exchange costs by diversifying its information sources. However, as it grows and expands in size, it will inevitably need more inside co-appointment, which will increase its operating costs.

As a result, if costs can be reduced down below market costs, all dynamic cycles with vulnerability and data deviation should be exposed to in-sourcing. Process outsourcing, on the other hand, happens when the expenses of executing them internally exceed the costs of performing a commercial transaction. As a result, it's important to evaluate the expenses of reaching an agreement with the costs of carrying them out in the firm when reconsidering decisions.

2.2.3 Agency Theory

The agency theory was developed by Jensen and Meckling (1976) to understand cooperation relationships based on agency costs, capital structure, and managerial actions. The positivist agency theory focuses on relationships between managers and owners, especially in public agencies, while the principal-agency theory focuses on principal-agent relationships, such as those between sellers and buyers or employers and employees (Jensen & Meckling, 1976). The principal's primary concern is to increase benefits by cooperating, while the agent's primary concern is to increase rewards received.

The usual situation when the agent acts on behalf of the principal, such as between subordinates and managers or between management and shareholders, is the subject of agency theory. The theory asserts that the general assumption of reasonable self-interest in circumstances may lead to a moral hazard problem, as an agent may be motivated to behave in ways that are not in the best interests of the principal, particularly if the agent has knowledge that the principal does not (Jensen & Meckling, 1976).

The goal of Agency Theory is to identify such issues and reduce knowledge asymmetry while reducing the potential cost to the parties involved. The agency theory was primarily used in this study to analyze the actions of economic participants in for-profit organizations, and many of the theory's findings can be extended to circumstances where people need to work together to accomplish their goals. As a result, the theory can be used to better understand Kenyan commercial banks' economic decisions.

2.3 Business Process Outsourcing

Business Process Outsourcing (BPO) is a performance management tactic that is gaining traction in the commercial banking sector as a result of challenges posed by a serious and competitive business environment. It entails rethinking a contractual relationship, with rethinking implying that the responsibility for carrying out specific business operations was assigned to an outsourcing firm and then transferred to a vendor for a fee. According to Thompson (2017), BPO involves contracting of the activities and obligations of explicit business measures proposing to use the capability and assets of committed specialists to execute them, while Tas and Sunder (2017) define BPO as "contracting of the activities and obligations of explicit business measures proposing to use the capability and assets of committed specialists to execute them."

Business Process Outsourcing encompasses both management and outsourcing of business processes. It employs creativity to make the steps more effective, eliminating redundant steps and removing redundancies. Outsourcing, on the other hand, makes use of the capability and assets of dedicated merchants to carry out non-core activities (Mclvor and Humphreys, 2017). BPO is often confused with contracting; however, there is an important distinction to be made. While contracting involves the reevaluating company having ownership or control of a business operation or period, in BPO, the outsourcing firm has control of the business interaction. As a result, reevaluating business measures is described as handing over a portion of select in-house tasks to a third party(s) who handle business activities.

Because of the perceived complexity in calculating business services, the idea of BPO as a management technique to increase organizational efficiency was limited to the manufacturing sector for a long time (Harmon, Hensel & Lukes, 2016). Over time, it was thought that while many manufacturing processes could be streamlined and modularized, service processes were more difficult to standardize, making it more difficult to create effective performance metrics for outsourcing arrangements. However, the literature recognizes the value of effective performance management as a prerequisite for efficient service outsourcing. Furthermore, the literature agrees that the nexus between outsourcing and performance management and the organization's business strategy is important. According to Willcocks (2010), in today's competitive market climate, BPO has pervaded every industry and has become one of the most common and widely embraced business strategies worldwide. Furthermore, empirical research indicates that four business processes are primarily outsourced by various industries: information technology, human resources, marketing, and defense.

Outsourcing of information technology (IT) systems is a strategic business approach in which a customer entrusts the administration of a business process to an IT goods or services supplier, as well as responsibility and decision-making power. Because of the financial industry's IT-intensive business processes, this trend has accelerated in the last two decades, with companies and commercial banks outsourcing IT functions such as software development, operations in data center, e-commerce in addition to network operations.

Outsourcing HRM processes includes delegating specified HRM processes to an external HR professional, who then owns, controls, and administers the chosen processes based on predetermined and visible performance indicators (Al-Zahrani & Almazari, 2018). It allows you to maintain or relinquish control of certain HRM procedures based on whether or not they are deemed key HR business activities. According to a literature study, organizations frequently outsource HRM operations such as hiring, Training and development, performance assessment, payroll, compensation, and benefit administration.

Marketing process outsourcing is the deliberate choice of a company to outsource a portion of its marketing operations to external providers with the appropriate marketing infrastructure, experience, and skills in order to satisfy consumer needs and wants at the lowest feasible cost. In services-based literature, the impact of service quality expectations on the link between service quality and customer satisfaction is highlighted (Taylor & Baker, 2018). Commercial banks require improved customer knowledge obtained via market research in order to produce goods and services targeted at certain market segments, resulting in more focused marketing, sales, and service techniques. Commercial banks, according to studies, outsource marketing tasks such as corporate branding, advertising, and public relations.

Outsourcing security processes is delegating security process management to specialized security firms in order to benefit from their cutting-edge security experience and abilities in dealing with today's complex security challenges. Commercial banks outsource security activities including premises guarding, security infrastructure development and administration, and cash management, according to a literature review (Mimano, 2019).

2.4 Operational Performance

Operational performance, as described by Inman and Green (2018), is a company's performance as measured against normal or prescribed metrics of effectiveness, quality, and environmental responsibility, such as cycle time, productivity, risk reduction, and efficiency. According to Njue and Ongoto (2018), complete visibility of top management in quality teams, promoting customer orientation in quality problems, adopting a methodical approach in quality practice execution, and ensuring the presence and maintenance of continuous improvement practices for goods and services was a key driver of successful businesses. Operational efficiency is measured in a variety of ways, including flexibility, which is defined as an organization's ability to respond to changes in demand in terms of product or service specifications, volume, and on-time delivery (Abdullai & Micheni, 2018).

Operational efficiency is also calculated in terms of service quality, reduction in operating risks (Mbogo, 2017). Dependability is a crucial component of operations and organizational goals (Muriithi & Waweru, 2017). Dependability is a business success goal that measures how dependable a company is in delivering products on schedule and at expected rates and prices to customers. A product's capacity to perform as expected over time is also a measure of dependability (Batista & Maull, 2019).

Kaydos 2020) support that speed, accuracy, quality, cost and risk reductions, reliability, and dependability are all examples of operational performance objectives. Inside banking operations, speed is critical and serves as a direct indication of how effective the operations are. Configuring product lines to satisfy a range of demands and quickly adjusting these product lines to new needs are examples of flexible operations. Flexibility is linked to the speed objective, which requires a company to be able to offer a wide range of high-quality items while also adapting its operations to suit changing market needs. The quality of the product or service is also crucial. Having a desired product that is durable, sturdy, easy to maintain, functions well, and is trusted by customers is critical to achieving success goals. The goal of cost variance analysis is to see how much variation there is in a product's unit cost as a consequence of changes in a variety of variables including product diversity. Product volume and prices are generally lower for products with a wide range of characteristics (Onofrei, Prester & Wiengarten, 2019). The study adopted the metrics of quality, efficiency and cost reduction as the indicators of operational efficiency in the commercial banks.

2.5 Empirical Literature Review

In India, Jyoti, Arora, and Kour (2017) investigated outsourcing and organizational success in medium-sized businesses. Since the data was collected over a single time span, the analysis was cross-sectional. The study's data was gathered from managers, and the findings showed that outsourcing non-core critical and non-core non-critical activities has a positive impact on organizational success. Outsourcing and organizational success are moderated by cost leadership, differentiation, and growth strategies. Furthermore, outsourcing firms outperform non-outsourcing firms in terms of financial results.

In Rwanda, Uwamahoro (2019) looked into the impact of outsourcing on organizational success. Three companies from Rwanda's telecommunications and manufacturing industries were chosen as examples. The study's findings were focused on a sample of 111 employees chosen by easy and purposeful sampling; data was collected through questionnaires and documentation from primary and secondary sources. As a consequence of the findings, Rwandan businesses outsource in order to gain access to specialized resources and save money. According to respondents' views on the impact of outsourcing on cost efficiency, productivity, and profitability, the findings indicate that outsourcing practices contributed to organizational results. Furthermore, the results indicate that outsourcing activities have a weak positive and important relationship with cost performance, whereas outsourcing activities have a weak and moderate positive insignificant relationship with productivity and profitability, respectively.

In Kumasi, Ghana, Aning and Aning (2018) investigated the impact of outsourcing on the organizational efficiency of a number of financial institutions. Qualitative and quantitative analysis is used in the methodology. Questionnaires were used in the study. The study found that the key role or staff being outsourced was protection, followed by cleaning. These outsourced activities are shared by all of the study's institutions. It was also discovered that the main factors that affected management's decision to outsource a role or operation were cost savings and the ability for staff to focus on the institutions' core activities. The operations that were outsourced were minor details that could be easily removed without causing too much disruption to the overall organizational structure. Protection was discovered to be the most outsourced feature, and surprisingly, several security firms have sprung up.

Kivuva (2018) looked on the effects of outsourcing in Kenyan oil marketing companies. A descriptive research design was employed in this study. Thirty oil firms in Kenya took part in the study. Data from original sources was gathered via questionnaires. The data was analyzed using Microsoft Excel and social science statistical programs (SPSS). Outsourcing has a modest influence on organizational efficiency, according to the report's findings. Professional outsourcing, industrial outsourcing, process-specific outsourcing, and operational outsourcing account for 4% of organizational efficiency. Only process-specific outsourcing has a substantial influence on the efficiency of the business. Professional service outsourcing has a negative impact on a company's performance, and it should be avoided at all costs since it damages the company's reputation.

In the International Livestock Research Institute, Chege (2018) investigated the impact of outsourcing on results (ILRI). The study employed a descriptive quantitative research design. Data was collected using a standardized questionnaire that had been pre-tested. To interpret quantitative data, descriptive statistics were employed (frequencies and percentages). Outsourcing security services had a substantial influence on efficiency, according to the study, and there was a strong link between outsourcing security services and performance. Outsourcing computer maintenance services increased efficiency significantly; there was a strong link between outsourcing and performance. Cleaning service outsourcing increased productivity significantly, and there was a strong link between cleaning service outsourcing and performance.

Gitonga (2019) examined how Kenyan commercial banks handle business process outsourcing risks. The study's results indicate that there is a moderately positive relationship between BPO and outsourcing risk management, which has a cascading impact on efficiency. The costs and uncertainties associated with outsourcing business processes do not outweigh the benefits. As a result, it goes without saying that BPO improves the efficiency and reputation of commercial banks in Kenya.

Ogubi (2020) looked into the factors that influence Kenyan cell phone companies' adoption of business process outsourcing. The study was prompted by the Communication Commission of Kenya's report that these companies have a low level of BPO adoption, despite high operating costs and declining profitability (CCK). Employees of Kenya's four mobile phone companies were given twenty-eight questionnaires. Stratified and judgmental sampling is used to pick the respondents. The results of the surveys were analyzed using descriptive statistics and displayed in frequency tables. These companies, according to the study's findings, have embraced business process outsourcing. The key accelerators for business process outsourcing adoption were quality, security, and faith in expertise, as well as profitability. Major obstacles highlighted include the expense of business process outsourcing, as well as sales and marketing constraints.

2.6 Summary of Literature Review

Table 2.1 presents a summary of the literature reviewed and the gaps identified.

Table 2.1: Summary of Literature Review

Author(s)	Study Context	Findings	Gaps
Jyoti, Arora, & Kour (2017)	Outsourcing and organizational success in medium-sized businesses in India	Outsourcing non-core critical and non-core non-critical activities has a positive impact on organizational success. Outsourcing and organizational success are moderated by cost leadership, differentiation, and growth strategies	The findings cannot be generalized to suit the situation in Kenya due to geographical differences. The study was moderated which differs with the current study
Uwamahoro (2019)	Impact of outsourcing on organizational success in telecommunications and manufacturing industries in Rwanda's.	Outsourcing activities have a weak positive and important relationship with cost performance	The study was conducted in Rwanda and in different industry thus cannot suit the banking sector in Kenya

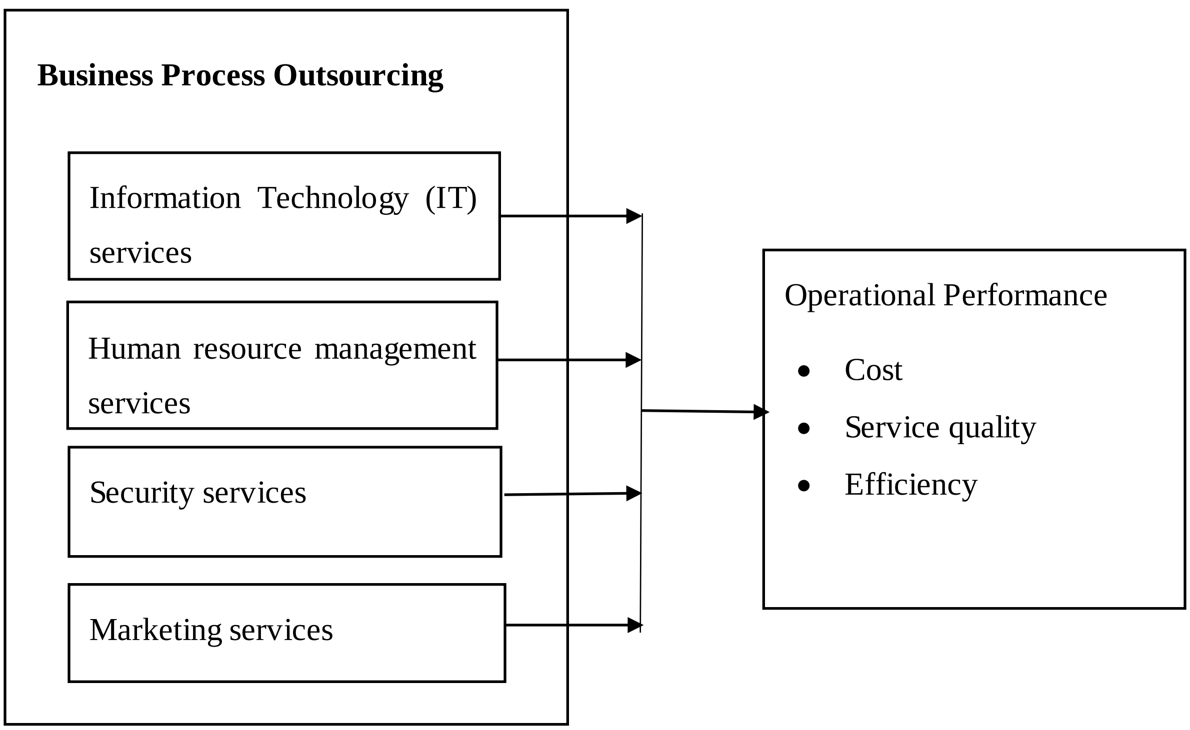
Author(s)	Study Context	Findings	Gaps
Aning and Aning (2018)	Impact of outsourcing on the organizational efficiency of a number of financial institutions in Ghana	The key roles or staff being outsourced were security, and cleaning. These outsourced activities are shared by all of the study's institutions. It was also discovered that the main factors that affected management's decision to outsource a role were cost savings and the ability for staff to focus on the institutions' core activities	The study was conducted in Ghana whose laws and economic conditions differ from that of Kenya. Thus the findings do not represent the status of outsourcing and operational performance in Kenya.
Gitonga (2019)	Examined how Kenyan commercial banks handle business process outsourcing risks of commercial banks in Kenya.	There is a moderately positive relationship between outsourcing risk management on efficiency.	The study focused on risk management outsourcing while the current study focuses on IT, human resource, security and marketing outsourcing.
Chege (2018)	Impact of outsourcing on results in the International Livestock Research Institute, (ILRI).	The study discovered that outsourcing security services had a significant impact on efficiency and that there was a clear connection between outsourcing security services and performance.	The focus of the study was on International Livestock Research Institute which is in a different sector.
Ogubi (2020)	Factors that influence Kenyan cell phone companies' adoption of business process outsourcing.	These businesses have embraced business process outsourcing. Quality, security and trust in knowledge, and profitability were the main enablers for business process outsourcing adoption. The cost of as well as sales and marketing barriers, were major challenges.	The study focused on telecommunication sector while the current study focus on the banking sector
Kivuva (2018)	Investigated the impact of outsourcing services in Kenyan oil marketing firms.	Outsourcing has a minor impact on organizational efficiency. 4% of organizational efficiency is explained through professional , industrial and, process-specific outsourcing, and operational outsourcing.	The focus of the study was on outsourcing services in Kenyan oil marketing firms while the current study is on the banking sector

2.7 Conceptual Framework

In every research project, a conceptual framework is essential. It shows how the dependent and independent variables are related. Figure 2.1 depicts the study's conceptual context, which depicts the relationships between the study's variables. Information technology processes, human resource management processes, protection processes, and marketing processes are the study's independent variables, while operational output, which is evaluated in terms of reliability, quality, and productivity, is the study's dependent variable.

Figure 2.1 Conceptual framework

Independent variables **Dependent variable**



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section presents the study's approach. It covers the population of the research, sampling design, collection and analysis of data.

3.2 Research Design

The research used a descriptive cross-sectional study. Cross-sectional researches are usually done once as per Cooper and Schindler (2006). They aid a scholar to determine whether there are significant relationships among variables existing at a particular point in time. Creswell and Clark (2003) propose that a descriptive cross-sectional survey deals with the who, what and how of a phenomenon which is the aim of this research. The design is best suited since it helped the scholar to determine whether important relations exist amid variables at some point in time.

3.3 Population of the Study

Polit and Hungler (1999) define the population as the whole or aggregate of all things, topics, or individuals that meet a set of criteria. The target populace of the research was all the commercial banks in Kenya. As per, the central bank, there are 42 accredited commercial banks as of 2020 which forms our target population. The research was a census survey and thus the 42 commercial banks were used. Census survey was adopted since the population is small. Ragab and Arisha (2018) proposed that when the target population is small, census survey is best suited. In addition, census sampling also enhances accuracy in the findings since entire population is included without representation.

3.4 Data Collection

A questionnaire was the designated instrument or tool for the collection of data for the research. The survey was established with reference to the aims of the study which focused on answering the questions from the research. The survey was structured into open and close-ended queries. The closed-ended queries incorporated a list of likert scale questions and the individuals responding to the questions were required to select the answer that best describes their situation. The queries which are open-ended, offered extra data that may not have been showcased in the close-ended queries. The surveys were directed to the operational managers in the 42 profit-making banks.

3.5 Data Analysis

To examine the level of business process outsourcing adoption quantitative data collected from the closed-ended questions was examined by the use of descriptive statistics. This involved the use of averages, standard deviations, percentages and frequencies. The data was presented by the use of tables and in prose-form. This was completed by adding up answers from respondents, calculating percentages of the differences in the responses as well as giving an interpretation and description of the statistics in line with the purposes of the research by using SPSS (Version 21). Analysis of the content was used in order to examine the findings that were collected from the open-ended questions or the findings that are qualitative in nature.

To determine the affiliation existing between business procedures outsourcing and operational performance inferential statistics was used. The inferential statistics involved the usage of multiple linear regression analysis to assess the association amid business process outsourcing and operational performance. The regression model was; $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Whereby

Y = Operational Performance,

X_1= IT processes outsourcing,

X_2= Human resource management outsourcing,

X_3= Security services outsourcing

X_4= Marketing service outsourcing,

While β_1, β_2, β_3, and X_4 are coefficients of determination and ε is the error term.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the data analysis, results and discussion. The chapter starts with the response rate, the demographic information, and descriptive analysis of findings, regression analysis and finally the discussion of the study findings.

4.2 Response Rate

The research administered the questionnaire to 42 commercial bank operation managers from which 36 questionnaires were fully filled and returned. This formed a response rate of 85.7%.

4.2 Demographic Information

4.2.1 Gender

The respondents were required to indicate their gender.

Table 4.2: Gender

	Frequency	Percentage
Male	15	41.7
Female	21	58.3
Total	**36**	**100.0**

Source: Research Data

The findings reveal that majority of the respondents (58.3%) were female while 41.7% were male.

4.2.2 Highest level of academic education

Table 4.3: Highest level of academic education

	Frequency	Percentage
College Diploma	1	2.8
Undergraduate	20	55.6
Masters	12	33.3
Other	3	8.3
Total	**36**	**100.0**

Source: Research Data

On the highest academic qualification, the majority of the respondents had attained undergraduate level, 33.3% had attained Masters Level, 8.3% had other qualifications, while 2.8% had college diploma. The findings imply that the respondents were well educated to understand and respond to the study questions.

4.2.3 Period worked in the organization

Table 4.4: Period worked in the organization

	Frequency	Percentage
Less than 5 years	12	33.3
Between 6 to 10 years	16	44.4
Between 11 to 15 years	6	16.7
Above 15 years	2	5.6
Total	**36**	**100**

Source: Research Data

The study sought to find out the period in which the respondents had worked in their organization. Most respondents 44.4% had worked for 6 to 10 years, 33.3% for less than 5 years, and 16.7% had worked for 11 to 15 years while 5.6% had worked in the organization for over 15 years. The findings imply that the respondents had solid experience in the organization and had the knowledge on outsourced services in the organization.

4.2.4 Total assets

The study assessed the value of the total assets of the organizations. From the findings, all the respondents indicated that the organization had assets worth over 5B.

4.2.5 Type of ownership

Table 4.5: Type of ownership

	Frequency	Percentage
Locally owned	22	61.1
Foreign owned	12	33.3
Public owned	2	5.6
Total	**36**	**100**

Source: Research Data

On the type of ownership of the banks, majority of the banks (61.1%) were locally owned, 33.3% foreign owned and 5.6% were publicly owned.

4.3 Information Technology (IT) services outsourcing

The respondents were asked to rate their degree of agreement with different assertions relating to the Information Technology (IT) services outsourcing in the organization. For every statement the rating scale was; 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree. The findings were as presented in Table 4.6.

Table 4.6: Statements relating on Information Technology (IT) services outsourcing

	N	Mean	Std. Deviation
The organization has outsourced its applications support services	36	3.67	1.07
The organization has engaged external specialists for our data security management	36	4.00	1.17
We have outsourced our ATM management services	36	3.73	1.26
We have outsourced our applications management services	36	3.56	1.44
Our organization has outsourced the software development services	36	3.56	1.44
The organization has outsourced system maintenance services	36	3.78	1.05
Composite		**3.65**	**1.24**

Source: Research Data

From the findings, the respondents agreed that the organization has engaged external specialists for their data security management as illustrated by a mean of 4.00 with a standard deviation of 1.17. The organization has outsourced system maintenance services as demonstrated by a mean of 3.78, with a standard deviation of 1.05 and the banks have outsourced their ATM management services as shown by a mean of 3.73 with a standard deviation of 1.26.

The findings also showed that the respondents also agreed that the organization has outsourced its applications support services as illustrated by a mean of 3.67 with a standard deviation of 1.07, that they have outsourced their applications management services as demonstrated by a mean 3.56 with a standard deviation of 1.44 and also, that their organization has outsourced the software development services as show by a mean of 3.56 with a standard deviation of 1.44. The respondents indicated that Information Technology (IT) services outsourcing in the organization allows organizations to concentrate on their core skills, get access to cutting-edge technology, and boost flexibility and cost savings.

The study findings reveal that the commercial banks have engaged external specialists for their data security management, system maintenance services, ATM management services, and applications support services, applications management services and software development services. Similar findings were also established by Chege (2018) that outsourcing computer maintenance services increased efficiency significantly and thus a strong link between outsourcing and performance.

The findings corroborate with findings established by Uwamahoro (2019) that businesses outsource in order to gain access to specialized resources and save money. As per the study findings outsourcing improve operational performance through cost efficiency, productivity, and profitability contributing to the overall performance. In addition, the findings correspond to the view of the resource-based view on outsourcing that a firm can stretch its boundary by outsourcing to partners that to take advantage of competitive opportunity that enhances capabilities.

4.4 Human resource management services outsourcing

The respondents were asked to rate their degree of agreement with different assertions relating to the human resource management services outsourcing in the organization. The findings were as presented in Table 4.7.

Table 4.7: Statements relating on human resource management services outsourcing

	N	Mean	Std. Deviation
The organization contracts recruitment agencies in the hiring process	36	4.22	1.05
We have outsourced out payroll management services	36	2.67	1.43
The bank contracts external specialists for team building services	36	3.83	0.88
We outsource our employee training services	36	3.89	1.21
We have outsourced employee appraisal services	36	2.44	1.18
We have outsourced our career planning services	36	2.67	1.07

Composite	**3.29**	**1.14**

Source: Research Data

The findings revealed that most of the respondents agreed that the organization contracts recruitment agencies in the hiring process as illustrated by a mean of 4.22 with a standard deviation of 1.05 and that they outsource their employee training services as shown by a mean of 3.89 with a standard deviation of 1.21. A mean of 3.83 and a standard deviation of 0.88 illustrated that the respondents agreed that the bank contracts external specialists for team building services. The respondents were undecided on whether they have outsourced out payroll management services as illustrated by a mean of 2.67 with a standard deviation 1.43, and whether they have outsourced their career planning services as shown by a mean of 2.67 with a standard deviation of 1.07.

In addition, the respondents disagreed that they have outsourced employee appraisal services as demonstrated by a mean of 2.44 with a standard deviation of 1.18. The respondents further indicated that the selection of the best provider is critical, since their skills impact the agreement's success. They noted that human resource outsourcing as a cost-cutting technique. Because of economies of scale, better efficiency, and higher levels of competence, consultants that specialize in HR services provide cheaper prices than the organization can execute internally.

The findings show that banks contract recruitment agencies in the hiring process, their employee training services and also for team building services. Similarly, Al-Zahrani and Almazari, (2018) support that outsourcing HRM services includes delegating specified HRM services to an external HR professional, who administer the chosen services based on predetermined and visible performance indicators. It allows an organization to maintain or relinquish control of certain HRM procedures based on whether or not they are deemed key HR business activities.

The findings further reveal that because of economies of scale, better efficiency, and higher levels of competence, consultants that specialize in HR services provide cheaper prices than the organization can execute internally. Consistent with the study findings, Aning and Aning (2018) found that the key role of HRM outsourcing was cost savings and the ability of staff to focus on the institutions' core activities.

4.5 Security Services Outsourcing

The respondents were asked to rate their degree of agreement with different assertions relating to the security services outsourcing in the organization. The findings were as presented in Table 4.8

Table 4.8: Statements on security services outsourcing

	N	Mean	Std. Deviation
Our premises are guarded by guards from an external security company	36	4.56	0.50
We use security devices from external companies	36	3.67	1.35
Our security instruments like the CCTV are monitored by external security firms	36	3.22	1.49
Customer behaviors and activities are monitored by external security personnel	36	2.78	1.49
Physical money transfers are done by specialized external vendors	36	3.67	1.17
The organization's security needs are assessed by external firms	36	3.11	1.30
Composite		**3.50**	**1.22**

Source: Research Data

From the findings, the respondents strongly agreed that their premises are guarded by guards from an external security company which is demonstrated by a mean of 4.56 with a standard deviation of 0.50. The respondents agreed that they use security devices from external companies as shown by a mean of 3.67 with a standard deviation of 1.35 and that physical money transfers are done by specialized external vendors as illustrated by a mean of 3.67 with a standard deviation of 1.17. A computed mean of 3.22 with a standard deviation of 1.49 show that the respondents neither agreed nor disagreed that their security instruments like the CCTV are monitored by external security firms.

The respondents were also undecided on the statement that the organization's security needs are assessed by external firms which is depicted by a mean of 3.11 with a standard deviation of 1.30 and that customer behaviors and activities are monitored by external security personnel as shown by a mean of 2.78 with a standard deviation of 1.49.

The respondents indicated that most of the security services have been outsourced. In addition, they indicated that by better combining and centralizing operations, security services outsourcing substantially improve speed, minimize operational risk, and boost efficiency. Consistent to the findings, Gitonga (2019) revealed a positive relationship between BPO and efficiency. The costs and uncertainties associated with outsourcing business processes do not outweigh the benefits.

The respondents indicated the CCTV and other security instruments are monitored internally but serviced by external providers. The study findings determined that the banks premises are guarded by guards from an external security company. The banks use security devices from external companies and the physical money transfers are done by specialized external vendors. Corroborating with the study findings, Chege (2018) found that outsourcing security services had a substantial influence on efficiency, according to the study, and there was a strong link between outsourcing security services and performance.

4.6 Marketing Services Outsourcing

The respondents were asked to rate their degree of agreement with different assertions relating to the marketing services outsourcing in the organization. The findings were as presented in Table 4.9

Table 4.9: Statements relating to the marketing services outsourcing

	N	Mean	Std. Deviation
The organization contracts marketing consultants for marketing and advertising services	36	4.22	0.93
Our marketing research is always done by external contractors	36	3.67	0.83
Outsourcing our marketing services is more flexible	36	3.78	0.80
The organization contracts marketing specialists for our product branding	36	4.11	0.89
Our social media content is managed by external vendors	36	3.56	1.36
Our video content campaigns are done external specialists	36	4.22	0.80
Composite		**3.93**	**0.93**

Source: Research Data

The findings show that the respondents agreed that the organization contracts marketing consultants for marketing and advertising services which was shown by the mean of 4.22 with a standard deviation of 0.93. The respondents agreed on the statement that their video content campaigns are done external specialists as demonstrated by a mean of 4.22 with a standard deviation of 0.80 and that the organization contracts marketing specialists for their product branding as illustrated by a mean of 4.11 with a standard deviation of 0.89. The respondents agreed that outsourcing their marketing services is more flexible as depicted by a mean of 3.78 with a standard deviation of 0.80.

The findings also show that the respondents agreed with the statement that their marketing research is always done by external contractors which is demonstrated by a mean of 3.67 with a standard deviation of 0.83 and that their social media content is managed by external vendors as shown by a mean of 3.56 with a standard deviation of 1.36. The respondents indicated that marketing services outsourcing in their organizations is well done by external consultants. The study findings established that the banks contracts marketing consultants for marketing and advertising services such as video content campaigns and for their product branding.

In corroboration with the findings, Aning and Aning (2018) found that operations that were outsourced were minor details that could be easily removed without causing too much disruption to the overall organizational structure. The organizations marketing research is always done by external contractors and their social media content is managed by external vendors thus providing flexibility. Similar findings were established by Kivuva (2018) who found that outsourcing has a positive impact on the efficiency of a firm.

4.7 Operational Performance

The respondents were asked to rate their degree of agreement with different assertions relating to operational performance in the organization. The findings were as presented in Table 4.10

Table 4.10: Statements Relating to Operational Performance

	N	Mean	Std. Deviation
The quality of our services has improved	36	4.44	0.69
The organization has earned customer loyalty	36	3.67	1.17
The organization has cut down some costs	36	3.72	1.16
The organization has reduced some operational risks	36	4.22	1.05
We have created a competitive advantage for our organization	36	4.56	0.69

The organization has enhanced efficiency in service delivery	36	4.22	0.64
Our services are dependable	36	4.33	0.68
Composite		**4.17**	**0.87**

Source: Research Data

The findings show that most of the respondents strongly agreed that they have created a competitive advantage for their organization and that the quality of their services have improved as demonstrated by a mean of4.56 and 4.44 respectively. The respondents agreed that their services are dependable (mean= 4.33, standard deviation= 0.68). The respondents agreed that the organization has reduced some operational risks (mean= 4.22, standard deviation= 1.05) and that the organizations has enhanced efficiency in service delivery (mean= 4.22, standard deviation= 0.64).

Further, the findings show that the respondents supported that the organization has cut down some costs as demonstrated by a mean of 3.72 with a standard deviation of 1.16, and also that the organization has earned customer loyalty as shown by a mean of 3.67 with a standard deviation of 1.17. The findings support that the operational performance of the commercial banks have improved. The banks have created a competitive advantage for their organization, improved the quality of their services, reduced some operational risks, enhanced efficiency in service delivery, cut down some costs as well as earned customer loyalty. Consistent with the findings, Gitonga (2019) found that BPO and outsourcing risk management, which has a cascading impact on efficiency. The study found that BPO improves the efficiency and reputation of commercial banks in Kenya.

4.9 Regression Analysis

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.706[a]	.498	.483	.50952

a. Predictors: (Constant), IT services, Human resource management, Security services, Marketing service

Source: Research Data

The R-squared value (0.498) shows that business processes outsourcing account for 49.8% changes of operational performance of commercial banks in Kenya.

Table 4.12: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.135	4	6.534	46.996	.000[b]
	Residual	4.310	31	.139		
	Total	30.444	35			

a. Dependent Variable: Operational Performance

b. Predictors: (Constant), IT services, Human resource management, Security services, Marketing services

Source: Research Data

The P-value of F-statistics 0.000<0.05 indicated that the regression model was fit for the data collected. The model was fit for predicting the impact of business process outsourcing on the operational performance of commercial banks in Kenya.

Table 4.13: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.489	0.749		3.321	0.002
	IT services	0.396	0.123	0.442	3.220	0.025
	Human resource management	0.172	0.053	0.102	3.245	0.004
	Security services	0.458	0.144	0.427	3.181	0.000
	Marketing service	0.279	0.095	0.230	2.937	0.002

a. Dependent Variable: Operational Performance

Source: Research Data

The analytical model is: $Y = 2.489 + 0.396X_1 + 0.172X_2 + 0.458X_3 + 0.279X_4$

In the absence of IT services, Human resource management, Security services, marketing service outsourcing, operational performance would be 2.489. At 95% confidence interval, all the business process outsourcing had a positive significant coefficient. A unit increase in IT services would lead to an increase in operational performance by 0.396 units. Therefore, information technology services outsourcing positively and significantly increases the operational performance of commercial banks in Kenya. Similarly, Uwamahoro (2019) established that IT service outsourcing leads to cost efficiency, productivity, and profitability.

A unit increase in human resource management services would lead to an increase in operational performance by 0.17 units, thus human resource management services outsourcing positively and significantly increases the operational performance of commercial banks in Kenya. Concurring with the study findings, Kivuva (2018) established that Professional outsourcing positively and significantly increases operational performance in commercial banks in Kenya.

A unit increase in security services would lead to an increase in operational performance by 0.279 units. Thus, security services outsourcing positively and significantly increases the operational performance of commercial banks in Kenya. Ogubi (2020) also established that firms outsource security services. In addition, the study found that a unit increase in marketing services would lead to an increase in operational performance by 0.279 units. Thus, marketing services outsourcing positively and significantly increases the operational performance of commercial banks in Kenya. Consistent with the findings, Kaydos 2020) found that outsourcing marketing services improve the operating efficiency of the firm.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents a recap of the study. A summary of the study, conclusions, recommendations and suggestions for further studies sections are presented in this chapter. The purpose of the research was to establish the impact of business process outsourcing on the operational performance of commercial banks in Kenya.

5.2 Summary of the Study

The study sought to establish the level of business process outsourcing adoption in commercial banks in Kenya. The study found that commercial banks have outsourced IT services, human resources, security and marketing processes. The banks have engaged external specialists for their data security management, system maintenance services, their ATM management services and applications support services. The organizations contract recruitment agencies in the hiring process. The study found that the banks premises are guarded by guards from an external security company and most of the banks security instruments like the CCTV are not monitored by external security firms. In addition, the study found that the organization contracts marketing consultants for marketing and advertising services.

The study further sought to determine the relationship between business process outsourcing and operational performance of commercial banks in Kenya. The findings revealed that IT services, human resource management, security services and marketing service outsourcing had a positive significant impact on the operational performance of commercial banks in Kenya. The Information Technology (IT) services outsourcing in the organization allows organizations to concentrate on their core skills, get access to cutting-edge technology, and boost flexibility and cost savings. Because of economies of scale, better efficiency, and higher levels of competence, consultants that specialize in HR services provide cheaper prices than the organization can execute internally. In addition, better combining and centralizing operations, security services outsourcing substantially improve speed, minimize operational risk, and boost efficiency. More so outsourcing marketing services is more flexible where the organization's marketing research is always done by external contractors.

5.3 Conclusion

The study concludes that information technology services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The commercial banks have engaged external specialists for their data security management, system maintenance services, ATM management services and applications support services, applications management services and the software development services.

Human resource management services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The banks contracts recruitment agencies in the hiring process, their employee training services and also for team building services. Because of economies of scale, better efficiency, and higher levels of competence, consultants that specialize in HR services provide cheaper prices than the organization can execute internally.

Security services outsourcing positively and significantly increases operational performance in commercial banks in Kenya. The banks premises are guarded by guards from an external security company. The banks use security devices from external companies and the physical money transfers are done by specialized external vendors.

Marketing services outsourcing positively and significantly increases operational performance of commercial banks in Kenya. The banks contracts marketing consultants for marketing and advertising services such as video content campaigns and for their product branding. The organizations marketing research is always done by external contractors and that their social media content is managed by external vendors.

5.4 Recommendations of the Study

The banks have outsourced crucial information technology services such as ATM and system development. In light of the results, the research suggests that banks take steps to ensure that outsourced services are well-documented and that expertise is transferred to internal IT workers, in order to prevent over-reliance on service providers and a loss of control.

Human resources management services outsourcing has a positive influence on operational performance however commercial banks have only outsourced a few human resources management service activities. The study recommends that commercial banks to outsource more human resources management services so as to facilitate concentration on their core activities.

The study recommends that even as commercial banks continue to outsource security services; there should be an effective mechanism to determine the security services that can be outsourced, those that require internal control and those that can be done in collaboration with the external providers.

Marketing services outsourcing have been found to improve the operational performance of commercial banks and as such, the study recommends that the banks continue to outsource their marketing services for better operational performances.

5.5 Limitations of the Study

The research was conducted in a short amount of time with a restricted window for conducting an extensive study, therefore the researcher experienced time constraints. Nevertheless, the researcher was able to carry out the research across the banks with one respondent per bank.

The study was limited to information technology, human resource management, security and marketing services outsourcing but there could be other services that are outsourced by commercial banks.

The study was limited to descriptive research design thus cause and effect correlations cannot be established. Respondents may not be genuine or offer socially acceptable replies while answering survey questions. The phrasing and choice of questions on a questionnaire might have an impact on the descriptive results.

5.6 Areas for Further Research

The study focused on the impact of business services outsourcing on the operational performance of commercial banks in Kenya. Commercial banks are part of the financial sector thus further studies should focus on the other segments of the sector such as the microfinance institutions and SACCOs.

The business processes focused on by the current study account for 49.8% variation of the operational performance. Future studies should focus on other business processes that are outsourced by commercial banks and their influence operational performance.

The current study adopted a descriptive research design which guided the methodology of the study; therefore, future studies could adopt different research designs such as causal research design.

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Appendix I: Questionnaire

SECTION I: Demographic Information

1. Please indicate your gender.

    Male [ ]   Female [ ]

2. Please specify your highest level of academic education? (Please tick as appropriate)

    College Diploma [ ]   Undergraduate [ ]

    Masters [ ]   Doctorate [ ]

    Others, (please specify) ……………………………………….

3. For how long have you worked in the organization? Please (√) as appropriate

    Less than 5 years [ ]   Between 6 to 10 years [ ]

    Between 11 to 15 years [ ]   Above 15 years [ ]

4. For how long has your organization been in existence?

    Less than 10 years [ ]

    11 to 15 years [ ]

    16 to 20 years [ ]

    21 to 25 years [ ]

    Over 26 years [ ]

5. Indicate the total assets of your organization.

    Less than 500M [ ]

    501M to 1B [ ]

    1.1B to 3B [ ]

    3.1B to 5B [ ]

    Over 5B

6. What is the type of ownership of your bank?

    Locally owned [ ]

    Foreign owned [ ]

    Public owned [ ]

SECTION II: BUSINESS PROCESSES OUTSOURCING

7. Kindly indicate your agreement level with various statements relating to the Information Technology (IT) processes outsourcing in your organization. Select on a statement by

ticking (√) appropriately. Where 1=Strongly disagree, 2 = Disagree, 3=Neutral, 4=Agree and 5 = Strongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
The organization has outsourced its applications support services					
The organization has engaged external specialists for our data security management					
We have outsourced our ATM management services					
We have outsourced our applications management services					
Our organization has outsourced the software development services					
The organization has outsourced system maintenance services					

8. How else can you describe Information Technology (IT) processes outsourcing in your organization?

………………………………………………………………………………………………

………………………………………………………………………………………………

9. Kindly indicate your agreement level with various statements relating to the human resource management processes outsourcing in your organization. Select on a statement by ticking (√) appropriately. Where 1=Strongly disagree, 2 = Disagree, 3=Neutral, 4=Agree and 5 = Strongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
The organization contracts recruitment agencies in the hiring process					
We have outsourced out payroll management services					
The bank contracts external specialists for team building services					
We outsource our employee training services					
We have outsourced employee appraisal services					
We have outsourced our career planning services					

10. How else can you describe the human resource management processes outsourcing in your organization?

………………………………………………………………………………………………

………………………………………………………………………………………………

11. Kindly indicate your agreement level with various statements relating to security processes outsourcing in your organization. Select on a statement by ticking (√) appropriately. Where 1=Strongly disagree, 2 = Disagree, 3=Neutral, 4=Agree and 5 = trongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
Our premises are guarded by guards from an external security company					
We use security devices from external companies					
Our security instruments like the CCTV are monitored by external security firms					
Customer behaviors and activities are monitored by external security personnel					
Physical money transfers are done by specialized external vendors					
The organization's security needs are assessed by external firms					

12. How else can you describe the security processes outsourcing in your organization?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

13. Kindly indicate your agreement level with various statements relating to marketing processes outsourcing in your organization. Select on a statement by ticking (√) appropriately. Where 1=Strongly disagree, 2 = Disagree, 3=Neutral, 4=Agree and 5 = Strongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
The organization contracts marketing consultants for marketing and advertising services					
Our marketing research is always done by external contractors					
Outsourcing our marketing agencies is more flexible					
The organization contracts marketing specialists for our product branding					
Our social media content is managed by external vendors					

Our video content campaigns are done external specialists					

14. How else can you describe the marketing processes outsourcing in your organization?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

SECTION III: OPERATIONAL PERFORMANCE

15. Kindly indicate your agreement level with various statements relating to the operational performance in your organization. Select on a statement by ticking (√) appropriately. Where 1=Strongly disagree, 2 = Disagree, 3=Neutral, 4=Agree and 5 = Strongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
The quality of our services have improved					
The organization has earned customer loyalty					
The organization has cut down some costs					
The organization has reduced some operational risks					
We have created a competitive advantage for our organization					
The organizations has enhanced efficiency in service delivery					
Our services are dependable					

16. How else can you describe the operational performance of your organization?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Thank you

Appendix II: PLAGIARISM REPORT

BUSINESS PROCESS OUTSOURCING

ORIGINALITY REPORT

15%	12%	2%	5%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	ir-library.ku.ac.ke Internet Source	2%
2	erepository.uonbi.ac.ke Internet Source	2%
3	Submitted to Kenyatta University Student Paper	1%
4	Submitted to University of Nairobi Student Paper	1%
5	pdfs.semanticscholar.org Internet Source	1%
6	erepository.uonbi.ac.ke:8080 Internet Source	1%
7	ir.jkuat.ac.ke Internet Source	<1%
8	ir.amu.ac.in Internet Source	<1%
9	chss.uonbi.ac.ke Internet Source	<1%