

**APPLICATION OF OUTSOURCING STRATEGY AMONG SHIPPING
FIRMS IN KENYA**

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DECLARATION

This research project is my original work and has not been submitted to any other university for award of a degree.

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This research project has been submitted for examination with my authority as the university supervisor

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DEDICATION

This project is dedicated to my family especially my wife Regina and my son Kevin for their continuous support and encouragement throughout the entire period. I also dedicate this project to my Dad and Mum Mr. And Mrs. Kaveke Muluvi.

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I would like to thank my Dad and Mum for lighting my pathway through education, and setting an example for me to follow and especially my Father for always assisting me to see the lighter side of life. I thank my dearest wife for always being there for me in the toughest and most challenging of times.

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ABSTRACT

The shipping industry plays a very crucial role in the Kenyan economy. As the world business environment changes it is vital that businesses including the shipping firms adapt to these changes in order to survive and achieve their corporate objectives. Outsourcing is a strategic tool used by companies to improve their ability to concentrate on the core competencies, outsourcing non-core functions. It is therefore a business response to the external environment and to competitive forces within industry. Shipping companies use outsourcing practices due to increased levels of vessel charter hire costs and the high cost of fuel or bunker. Outsourcing helps the firms to keep at par with competitors while ensuring a return on investment coupled with certain, albeit diminishing profit margin. The overall aim of this study was to assess the application of outsourcing strategy among shipping companies in Kenya. The specific objectives were to establish the extent to which shipping companies use outsourcing practices and determine which strategies they use. The study also aimed to establish which factors influence outsourcing decisions by the firms. Literature review was gathered from various sources with more emphasis on more current literature from renowned authors in outsourcing strategy. The research used a cross-sectional survey research design which aimed at assessing the application of outsourcing strategy among the shipping firms in Kenya. The data collection tool used was a questionnaire with closed and open-ended questions guided by the contents of the literature review and aimed at achieving the set objectives. The targeted respondents were the senior managers in charge of outsourcing. The questionnaire was administered by drop and pick method and also via email. The study revealed that the shipping companies in Kenya use similar outsourcing strategy with a greater emphasis on cost reduction in order to increase their competitiveness. The study also established that outsourcing is regarded as an important element of the corporate strategy of most shipping firms in Kenya. This implies that shipping firms in Kenya apply outsourcing strategy and prefer to outsource non-core activities.

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ABBREVIATIONS AND ACRONYMS

KMA – Kenya Maritime Authority

KPA - Kenya Ports Authority

KRA – Kenya Revenue Authority

KSC – Kenya Shipping Council

KIFWA - Kenya International Freight and Warehousing Association

ISO – International Standards Organisation

TEU - Twenty foot Equivalent Units

UNCTAD - United Nations Conference on Trade and Development

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Outsourcing is a strategic tool used by companies to improve their ability to concentrate on the core competencies, outsourcing non-core functions. Outsourcing is not contracting or fixing business processes. It is about creating value. It is about reengineering and being able to provide customers a greater value faster, at a lower cost and higher quality. In recent years, outsourcing as a business strategy has brought dramatic change of fortunes in many organizations. Corbett (1999) observed that smart organizations focus on core competencies that provide high value, maximize return on internal resources, treat many services as strategic enablers and also have an internal customer/supplier orientation. They approach outsourcing in a strategic manner to bring predictability and reliability in the delivery of services as well as giving them a competitive advantage.

Transaction cost theory examines the efficiency of choosing between different governance structures such as contracting out or vertical integration (Rindfleisch & Heide, 1997). When a function is performed within the company, it is called vertical integration, hierarchy or in-house, whereas the function performed outside the company is named market governance or contracting out (outsourcing). Transaction cost theory posits that the governance structure (outsourcing or in-house) which minimizes the sum of production and transaction costs is the one to be preferred (Rindfleisch & Heide, 1997). The costs of developing specifications, designing the product, and performing the other activities involved in moving to a production-ready component are referred to as production costs (Rosenau, 1990).

In the current shipping market, outsourcing is emerging as a necessity for shipping companies to maintain a competitive edge in the market. Global shipping companies are increasingly focusing on outsourcing as a long-term strategy for operational excellence, sustainability and growth. Ocean carriers like Maersk, Hapag-Lloyd, APL, MOL and CSAV began their outsourcing journey through captives in low cost countries such as Malaysia, India, the Philippines and China. But several of them are realizing that the costs of managing a captive in these testing times may far exceed the benefits. Shipping companies are exploring the option of engaging with a third-party outsourcing company for their outsourcing needs (Augustine, 2012).

1.1.1 Outsourcing Strategy

According to the Outsourcing Institute, 2001, in simple terms, 'outsourcing' can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. It is a management strategy by which an organization outsources major, non-core functions to specialized, efficient service providers.

The outsourcing of non-core activities allows an organization to increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other firms to oversee tasks at which the outsourcing firm is at a relative disadvantage. This focus can improve results by allowing the firm to be more effective, more innovative and more skilled in those activities. Also, outsourcing can be used to increase the quality of work life. When an organization focuses on its core competences, especially for the remaining employees, some positive improvements may emerge. Focusing on core competences ensures that the job becomes more meaningful for the employees (Lacey & Blumberg, 2005).

Secondly, increased outsourcing of non-core activities can improve service quality (Dess et al., 1995). A vendor will be in a better position to provide the outsourced services because this area constitutes its core business (Gilley & Rasheed, 2000). Frequently, the improved capabilities of the supplier are the result of large investments in technology, in methodology and in human resources made over time. In many cases, the capabilities of the vendor include specialized knowledge in the industry obtained by working with many customers. The knowledge of the vendor can be transferred to the outsourcing firm, satisfying customer requirements with their skills, processes or technology. For all of the above reasons, the outsourced service quality and the perception of that service are better than when performed in-house (Espino-Rodríguez & Gil-Padilla, 2005). Moreover, as a result of the activities contracted out to the vendor, since the management spends more time on its other remaining services, an increase in the quality of the services performed could be observed. At this point, Elmuti (2003) provided support for empirical evidence of an outsourcing-quality relationship.

Lastly, outsourcing activities with low strategic value can lead to lower costs and thereby improve the organizational results (Espino-Rodríguez & Padrón-Robaina, 2005). Firms are increasingly viewing outsourcing strategies for reducing or controlling costs (Smith et al., 1998). Empirical research also suggests that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley et al., 2004; Gilley & Rasheed, 2000). It is commonly believed

that vendors can give the same level of service at a lower cost than internal departments. Presumably, vendors benefit from economies of scale, tighter control over fringe benefits, and better access to lower-cost labour pools, and more focused expertise in managing service (Downey, 1995; Smith et al., 1998). By focusing on specific skills and technologies, a vendor may become more proficient at that activity than the outsourcing firm may. Ideally, the vendor is also a cost-conscious provider and reduces bureaucratic costs, produces further efficiencies, and shares some of the savings with its clients. In addition, outsourcing arrangements reduce the need for capital assets, and this reduced investment in organization's capacity lowers fixed costs and leads to a lower break-even point. Outsourcing not only results in a shift of profitability but also exacerbates the productivity differential between outsourcing firms and vendors (Gilley & Rasheed, 2000).

1.1.2 Shipping industry in Kenya

Mombasa is the headquarters of the shipping industry in East Africa and the great lakes regions that is the hinterland for the port of Mombasa. The shipping industry in Kenya is dominated by multi-national shipping lines whose vessels call at the port of Mombasa to discharge and load cargo. These multi-national firms have set up presence in Kenya either through their fully owned subsidiaries or through representative agents. These serve as client service centres as well as vessel handling and port operation/logistics offices.

This business shipping agency is generally a customer service business revolving around marketing and business development along with the operational handling of vessels in port. The client base consists of import and export customers, cargo forwarders, clearing agents acting for and on behalf of the importers/exporters, and logistics providers such as transporters and warehouse operators, container depot operators as well as independent Container Freights Station operators. On the periphery are regulatory stakeholders like the Kenya Revenue Authority, Kenya Ports Authority, Kenya Maritime Authority and their counterparts in the neighbouring countries that form the larger hinterland to the port of Mombasa (KPA Handbook, 2014).

The shipping industry is one of the major driving forces behind the Kenyan economy, providing direct and indirect employment. Its liberalisation has also enticed further presence of foreign owned liners, many stretching and redirecting their routes to more lucrative destinations. The Kenyan shipping industry comprises of shipping liners which function as the main global carriers such as Maersk Liner, CGM CMA, among others. Other players include the agencies that act as

a contact between shipper and line, and clearing and forwarding agents, who assist in clearing cargo and in logistical delivery. The industry is regulated by the Kenya Maritime Authority (KMA) and the Kenya Ports Authority (KPA), whilst other major stakeholders include the Kenya Ships Agents Association, the Kenya Revenue Authority (KRA), the Kenya Shippers Council (KSC), and the Kenya International Freight and Warehousing Association (KIFWA). It is estimated that fifty ships of various types are in the major shipping lanes off the Kenyan coast at any given time. These can be characterized as follows: Oil tankers, bulk carriers, general cargo, container ships, passenger ships, tank barges, fishing trawlers, offshore supply, amongst others (UNCTAD, 2013).

1.2 Research Problem

The core idea behind strategic outsourcing is to benefit in some manner from allowing outside entities to take over the operation and management of a given function. Those benefits can take many different forms. Often, the idea is to increase the bottom line of a company by reducing various operating expenses. At other times, the benefit has to do with having immediate access to professionals who specialize in handling the outsourced function, without the need to train personnel to take over those functions. The benefit may be a matter of convenience, allowing the business owner to not have to deal with necessary functions that he or she does not wish to deal with, or feels unable to manage with any degree of efficiency. As long as the benefits that are generated by the arrangement are considered sufficient by the client, then the process of strategic outsourcing can be considered a success (Jiang & Qureshi, 2006).

In the shipping industry, firms have adopted various competitive strategies in order to stay ahead of competition and win consumers' loyalty. Shipping companies use outsourcing practices due to increased levels of vessel charter hire costs and the high cost of fuel or bunker. Outsourcing helps the firms to keep at par with competitors while ensuring a return on investment coupled with certain, albeit diminishing profit margin. Through use of outsourcing practices firms are able to meet their financial goals in particular and company goals in general. Cargo or merchandise being transported can be moved through a variety of transportation means and is organized in different shipment categories. Unit loads are usually assembled into higher standardized units such as: ISO containers, swap bodies or semi-trailers. Especially for very long distances, product transportation is likely to benefit from using different transportation means: multimodal, intermodal transport (no handling) and combined transport (minimal road transport).

A number of studies have been done in the area of outsourcing. In 1999, Federal Reserve Bank of New York conducted survey on banking industry practices for outsourcing arrangements. Findings suggest that banks outsource financial services for a number of reasons, such as, enhanced performance; costs reduction; access to superior expertise; and strategic reasons. In addition, the study indicates that although there are many benefits derived from outsourcing of financial services, the arrangement give rise to potential risks. The risks identified are: strategic, reputation, credit, compliance, transaction and country risk. Similarly, in 2004 Federal Reserve Bank of San Francisco, conducted survey on outsourcing by financial services firms, and notes a number of motives for outsourcing, namely, operational efficiency; efficient use of resources; and quick and reliable service delivery. Similarly, a survey conducted by European Central Bank in 2004 reveals that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility. As with US studies, the European study also reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, country risk reputational risk, loss of flexibility, loss of control and cultural/social problems. Pujals, G. (2004) conducted a study on offshore outsourcing in the European Union financial services industry. Results of the study indicate that banking institutions may choose to outsource certain activities for various motives. Some of the motives cited are: cost reduction, access to new technology, focus on core activities, improvement of quality of services and greater flexibility. In addition, the study identified the following risks associated with outsourcing of financial services: loss of control over service, operational risks, loss of internal skills, loss of flexibility, cultural and social problems, technical constraints, decline in quality and competitive advantages.

Wambui (2010) who researched on the analysis of logistics outsourcing at Kenya Armed forces found out that the concept of outsourcing in the Kenyan armed forces is so much limited due to the secretive nature of their work such that adoption of the strategy is on supply of non essential services such as stationery. Kamuri (2010) undertook a research on challenges facing the implementation of logistics outsourcing strategy at the Kenyatta National Hospital and found out among others for an organization to realize the competitiveness resulting from logistics outsourcing, then it should be able to develop a cordial relationship with all the supplier of goods and services which will facilitate efficient and effective delivery of services. Bosire (2011)

researched on the impact of logistics outsourcing on lead time and customer service among supermarkets in Nairobi. Kangaru (2011) while researching on challenges of business outsourcing at the Kenya Power found out that third party logistics providers are ahead of manufacturing companies that operate logistics departments on quality implementation and improvement issues in logistics services. Mulama (2012) did a study on the effect of logistics outsourcing practices on the performance of large manufacturing firms in Kenya. The study found out that the outsourcing services adopted by the firms were transportation management, warehouse management, material handling management, information management and inventory management.

From above studies it is clear that there has been little research done on outsourcing strategies employed by shipping firms in Kenya. This study therefore aimed to answer the following research question: To what extent do shipping firms in Kenya apply outsourcing strategy and what factors influence the application of outsourcing strategy?

1.3 Research Objectives

The study was guided by the following objectives:

- i. To establish the outsourcing practices employed by shipping firms in Kenya
- ii. To establish the outsourcing strategy employed by the shipping firms in Kenya
- iii. To determine the factors influencing the application of outsourcing strategy among the shipping firms in Kenya

1.4 Value of the Study

This study contributes to the literature in outsourcing especially about how the shipping firms can utilize outsourcing strategy to benefit in the focus of core competencies, cost reduction, provision of benefit through economies of scale and scope among others and the overall return on investment.

The study may assist the government through the relevant ministry in formulating appropriate strategic outsourcing policies that can improve decision-making processes in enhancing competitive advantage. These policies can also be appropriate in enhancing the performance of the organizations and the shipping industry at large.

The study generated information that may be used by various stakeholders interested in the shipping industry performance. It enables the board of directors and management of shipping firms to identify areas of weakness that need attention and foster sound strategic choices to deliver maximum investment value. The findings of this study go a long way in identifying the outsourcing practices employed by the shipping firms and factors influencing application of outsourcing strategy in this context. This study avails pertinent information on activities that can be outsourced by the shipping companies in Kenya. It benefits management of the shipping companies as they consult in an endeavour to focus on core business and in evaluating which activities in the value chain to outsource. The study stimulates further interest among future researchers in this dynamic area of outsourcing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section draws on literature in the area of implementation of outsourcing strategy. The material is of importance to this study as it forms a basis for observations which will be made during the study in line with the aims and objectives of the study.

2.2 Theoretical Foundations of the Study

There are several factors that influence or lead a firm to the decision to outsource the provision of services that the firm needs to make its output. The Transaction Cost Theory and the Resource Dependency Theory capture the essence of the factors that influence a firm to take the decision to outsource.

2.2.1 Transaction Cost Theory

This theory states that organizations are economic actors using the most efficient mechanism for transactions (Williamson, 1981). This theory posits that there are costs in using a market. These costs include operational costs such as search costs and inventory holding costs as well as the costs of writing and enforcing a contract. By making their own inputs the firm gains economies of scale and avoids transaction costs. The increased size of the firm will however require increased internal co-ordination (Grover et al 1996). If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale (Grover et al 1996). It would however take advantage of the economies of scale and scope of the vendor while at the same time reducing internal coordination costs. However the firm that outsources will increase its external co-ordination costs. External coordination costs will increase or decrease depending on the level of asset specificity. High asset specificity arises where the firm's products and services are customized and not easily transferable to alternative vendors (Williamson, 1985). Where the firm's products and services are very unique, the vendor may not be able to develop sufficient economies of scale and costs would be very high. In such a situation it may be more prudent to develop the competencies in house. In contrast more standardized products and services could reflect lower external co-ordination costs and the vendor may achieve economies of scale and would therefore be a more viable option for outsourcing.

2.2.2 Resource Dependency Theory

Barney (1991), states that this theory, views a firm as a collection of productive resources, physical, human and organizational capital. To fully exploit a firm's existing stock of resources

and capabilities in order to develop competitive advantage, the external acquisition of complementary resources and capabilities might be necessary. According to Grant (1991), this external acquisition is known as “filling gaps” and should be done only after a thorough evaluation of existing resources and deficiencies. Aldrich (1976) contributes by stating that the Resource Dependency Theory posits that a firm will tend to outsource when it depends on critical resources such as labour, capital, information or market that are external to the firm. A firm will exploit internal and external resources as necessary in order to develop a competitive advantage. Grover et al (1996) summarizes it that the resource dependency theory points to the acquisition of vendor resources to supplement in house competencies rather than total outsourcing.

2.3 Outsourcing practices

Currie and Willcocks (1998) distinguish three types of outsourcing for resources (human, physical, technology, etc) by a firm. These are Total Outsourcing, Multiple Supplier Outsourcing and Joint Venture or Strategic Alliance outsourcing. Total Outsourcing involves developing a partnership with a single supplier of a service that is perceived by the firm to be a support function. The supplier takes up the total responsibility of providing that service to the firm. This type of outsourcing enables the firm to focus its resources on what it considers to be its core business and avoid distractions. The Supplier of the total outsourcing service is of necessity an expert in providing the services required by the firm and able to provide the services on a scale that is more efficient than the firm.

Multiple-supplier outsourcing involves using more than one supplier to provide disparate services required by the firm. The services are outsourced to experts who are able to provide the service on a more efficient scale than the firm. The firm outsources because it requires the superior technology or ability of the outsourcing vendors. This form of outsourcing aims at fostering innovation and creates competition between suppliers. Contracts are usually short term, and the firm co-ordinates a portfolio of services from various suppliers with the aim of retaining strategic control.

Joint Venture Outsourcing involves a very close relationship between the firm and the outsourcing vendor. The firm and the outsourcing vendor may enter into a formal or informal partnership. The main focus is concerned with development of new knowledge for the firm, and there is more emphasis on shared risks and rewards. In some situations the firm will foster the creation of a vendor company to which it will outsource work, but still have more control than it

would in a multiple supplier or total outsourcing arrangement. Because this outsourcing model involves some form of vertical integration it may be used by a firm wanting to control competitive forces posed by suppliers in the industry as established by Porter (1979).

Outsourcing may also be classified as either off shore or on shore or near shore (Gulamhusein, 2011). Outsourcing is considered offshore outsourcing where the outsourcing vendor renders the services from another part of the world. Outsourcing is considered onshore outsourcing where the outsourcing vendor is situated in the same city or country as the client. Near shore outsourcing takes place where the outsourcing vendor is situated in a nearby country. In recent years, firms have been developing various kinds of strategies in order to solve problems related to the cost, quality and speed of services. Downsizing, elimination of some functions or processes, developing strategic relationships through franchising or contracting out or leasing arrangements can be seen as examples for these decisions.

Outsourcing is also one of these strategies. For example, many hotels have experienced success with the outsourcing of support services such as security, maintenance, laundry and baking (Hemmington & King, 2000). While many drivers are unique to specific organizations and industries, there are some common key factors that motivate organizations of all industries to make outsourcing decisions. These factors can broadly be categorized as economic, strategic, and environmental factors. By means of outsourcing, organizations can gain competitive advantage through cost reduction and improved responsiveness to changing business environment and market demand.

The increase in competition and growing awareness of the role of logistics lead more companies to exploit the potential of outsourcing. Manufacturers are increasingly looking for logistics solutions to move their goods to the fast-expanding consumer markets. Further, the trend towards consolidation in many of the industries and the emergence of national chains are also creating demand for outsourcing (Hertzell, 2001). As organizations redirect valuable internal skills and capabilities to high value adding activities, the sourcing debate has moved from whether to outsource, to what and the quality of outsourced services.

McLean (2006) is of the view that business enterprises usually opt to go for outsourcing for the following benefits: Cost savings, including cost restructuring: Businesses become successful when they are able to minimize costs, and outsourcing provides this advantage. By outsourcing, companies are able to tap better into pools of expertise and gain access to intellectual property,

as well as sustainable sources of skills. Moreover, this method avoids the time consuming process of training to develop the particular services in house. Also, by providing new service level agreements in their contracts, enterprises are able to make sure that the quality of the outputs or products is not lost. These contracts usually contain penalties or legal redress for transgressions. Time related advantages: It is possible that services are made available every day, at any time of the week. This is achievable because the services can be done in different locations with time zones. Many organizations are working towards the concept of organization dealing with core or strategic activities and with individuals providing a range of supporting ancillary services on contracted basis. These services must be performed at the highest standard possible so as to meet quality requirements (Daniels, 1998). When a company chooses to outsource employees or certain functions, the following advantages are normally harvested as rewards: trimmed down labor expenses, augmented productivity, reduced employer liability, better employee retention and improved acquiescence with laws and regulations (Lawrence, 2002).

When a company outsource, it can add top quality candidates to its employee base. The hiring process can be overwhelming for a small or even medium size human resource department, so finding employee hiring solutions outside the business can benefit the company's overall productivity tremendously. With hiring left to the experts, a company gains more time to focus on improving their business and leave the recruitment outsourcing basics to the experts. According to Thomas (2000), a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Zeithamal (2004) defines service quality as a measure of how well the service level matches customer expectations. An organization must be consistent in delivering quality service in conformity with the turbulence of its internal and external environment.

As Spreng and Mackoy (2006) noted, the quality of a service is of significant and strategic concern, an important indicator of customer's satisfaction. Consequently, outsourcing must meet the minimum standards of service quality as agreed between the client and service provider. Driven by globalization and rapid advance in information technology (IT), organizations strive to improve competitiveness and responsiveness to customer and market demands (Razzaque and Sheng, 1998). Outsourcing has increasingly become an important strategy that can significantly assist organizations to leverage their skills and resources to achieve greater competitiveness (Quinn & Hilmer, 1994; Welson, 1996). Regarding environmental dynamism: outsourcing may

be useful for firms competing with increasing levels of environmental dynamism (Anand and Ward, 2004; Gilley et al., 2004b; Stonebraker and Liao, 2004). For example, when new technologies emerge and mature technologies become obsolete, outsourcing enables firms to switch suppliers to exploit any cost or quality improvements that may then be available.

Cost efficiency remains the primary explanation for outsourcing. Firms evaluate outsourcing to determine whether current operating costs can be reduced and if saved resources can be reinvested in more competitive processes. Some researchers contend that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver (Anderson and Weitz, 1986; Roodhooft and Warlop, 1999). Since these outsourcing contract receivers typically serve many clients, they often achieve lower unit costs than can any single company.

2.4 Outsourcing Strategy

Strategic outsourcing is concerned with creating long term value for the business through long term mutually beneficial partnerships. The firm can create long term value by adopting outsourcing, to help it better manage the forces in the macro environment; to help it manage the forces in the competitive environment; to help the firm become more customer centric and to help the firm improve its overall performance. Pearce and Robinson (2003) classify the macro environmental factors that can affect the firm's ability to survive and be profitable as being political, economic, social and technological. For the firm to remain profitable and competitive it must monitor these factors in the macro environment and adapt accordingly. Government policy may encourage or discourage outsourcing. The government may use preferential policies to shore up its country's attractiveness as an outsourcing destination.

According to Qu and Brocklehurst (2003), from a transaction cost perspective, incentives provided by the destination government can reduce the transaction costs and attract organizations to outsource in the destination. Similarly governmental intervention in the form of taxation can control the volume of offshore outsourcing. Macroeconomic conditions in the outsourcing destination may also encourage or discourage outsourcing. The global nature of business means that firms are pursuing the lowest cost source (for labour and other resources) on a global scale making firms with a global foot print more competitive than their locally limited counterparts. An organization's inclination to adopt outsourcing may also be influenced by the social norms. The impact of social norms may be particularly significant in the context of offshore IT outsourcing. According to Doh (2005), when a large number of jobs have been outsourced

abroad, calls for corporate social responsibility become a social norm for the firms outsourcing abroad. Corporate social responsibility requires that an organization contribute to the social needs of its home country as well as protect the natural environment in the outsourcing destination (Doh, 2005). Outsourcing may also be triggered by dynamic technological innovations.

Martinez- Jerez et al (2006) in their case study of Bharti Airtel Ltd of India, on behalf of Harvard Business School found that where the technological risk of obsolescence is high arising from dynamic technological improvements and specifications changes a firm will chose to outsource in order to transfer the risk of such obsolescence to the vendor. In regard to the competitive environment, Porter (1980) posits that the nature and degree of competition in an industry hinges on five forces namely the threat of entrants, the bargaining power of customers, the bargaining power of suppliers the threat of substitute products, the jockeying among current contenders. Porter (1980) concluded that where these competitive forces are collectively strong then long run profitability is unlikely. Where the competitive forces are collectively weak, then there is an opportunity for superior performance. The degree of competition in firm's industry can be influential to the decision on adopting outsourcing. Douma and Shreuder (1992) are of the view that from a micro-economics perspective only the organizations producing the products in the most efficient way can survive competition in a free market economy. De Loof (1995) agrees that the degree of competition within the firm's industry may have a positive impact on the adoption of outsourcing since it can enhance an organization's efficiency of operation in different ways.

Outsourcing is therefore a business response to the external environment and to competitive forces within industry. According to Taylor and McAdam (2004) firms learn from the environment and adopt innovations to respond to environmental change. If the external environment is perceived to be highly dynamic as well as complex, then the level of outsourcing activities is likely to be high. This is because firms in such an environment will chose to transfer the risks inherent in that industry be they technology or human resources, to the outsourcing supplier (Gilley, McGee, and Rasheed, 2004). Outsourcing can also help a firm to be more customer-centric. According to Porter (1980), understanding and satisfying customer needs is crucial for an organization to sustain a competitive advantage in the market. Zhang and Cao (2002) state that the need for flexibility to meet fast changing customer needs forces an organization to restructure its goal, organization structure and business process and use outsourcing to meet customer needs so as to gain a competitive position in the value chain.

Porter (1980) lists three best strategies that a firm can undertake. They are cost leadership, differentiation, and market segmentation (or focus). Cost leadership is an integrated set of actions designed to produce products at the lowest cost relative to the competitors while maintaining features that are acceptable to customers.

Differentiation involves distinguishing products or services offered by a firm by creating something that the industry perceives as unique. Market segmentation or focus strategy involves focusing on serving a narrow market segment or product category. Using the differentiation strategy and cost leadership strategy dichotomy by Porter (1980), Gilley and Rasheed (2000) established that outsourcing peripheral activities may better benefit organizations pursuing cost leadership strategy and outsourcing core activities may better benefit organizations pursuing differentiation strategy, since organizations pursuing cost leadership strategy need most to reduce the peripheral costs, whereas organizations pursuing the differentiation strategy need most the skills for improving the quality of core activities. Barthelemy and Geyer (2004) found that cost reduction was the greatest motivation for firms to outsource. Lastly firms outsource because of the strategic benefits that outsourcing brings to the business. Loh et al (1992) enumerate these benefits as firstly the firm may gain strategic benefit by focusing on its core business by outsourcing none core activities and secondly the firm may gain economic benefits by utilizing the economies of scale in human and technological resources of the vendor.

2.5 Empirical Literature on Outsourcing

Outsourcing has grown rapidly to impact many activities of organisations and can cover many areas, including the outsourcing of manufacturing as well as services. Abraham and Taylor (2006) provide evidence of rising outsourcing of business services in 13 US industries and Helper (2008) documents the increased outsourcing of parts in the US automobile sector. A survey in 2007 of more than 600 large companies by the American Management Association finds that substantial numbers of companies are now outsourcing in many areas. Neemeka (2011) studied the implementation of the business process outsourcing strategy in Standard Chartered bank Kenya. Primary data was collected by use of structured interview guides conducted on 10 functional heads who are members of the country committee of Standard Chartered Bank Kenya Limited and responsible for business process outsourcing. From the study findings, it was concluded that the business operations that Standard Chartered Bank Kenya Limited outsources included information systems, accounting, auditing, archiving, cash sorting, product design, security personnel, transport, training, market probe services, facilities management, card transaction monitoring, network services outsourcing and payroll. The study

also concludes that the factors that drive Standard Chartered Bank Kenya Limited to outsource its business operations include a need to realize cost efficiency; for technical considerations, increase productivity/performance and the need to focus on core activities. This study is relevant in that it looked at the outsourcing practices and motives for outsourcing.

Another study done by Ichoho (2013) looked at implementation of outsourcing strategy at the Nairobi Hospital, Kenya. The purpose of this research was to assess the implementation of outsourcing strategy at the Nairobi Hospital with an aim to investigate the effects of outsourcing on the hospital's performance. This research was conducted through a case study. Primary data was collected using an interview guide which was administered to 10 Managers, both senior and middle levels, at the Nairobi Hospital. The qualitative data collected was analyzed using content analysis technique. The study established that the Nairobi Hospital had been outsourcing services for more than three decades. The study established that Nairobi Hospital considered factors such as the need to reduce and control operating cost, improve the focus of the hospital, gain access to world class capability, free resources for other purposes, when resources are not available internally, to accelerate re-engineering benefits, to efficiently provide functions that are too complex to manage and to share risks. The study established that organizational culture affects the relationship between the hospital and the service provider. This study although based on a different context of healthcare service is similar to this research in that it looked at factors influencing outsourcing decision.

King'ori (2013) studied strategic outsourcing at Airtel Kenya. The purpose of this project was to establish the factors that influenced Airtel Kenya's decision to outsource some of its functions to external vendors, to establish what process was followed and to also establish the effects of strategic outsourcing on the business of Airtel Kenya. The research design was that of a case study and senior members of the Airtel Kenya, Executive Committee were interviewed. The results indicated that the decision to outsource at Airtel Kenya was largely driven by the parent company Bharti Airtel of India which had extensive outsourcing experience in India. However, forces in the macro environment and the competitive environment provided justification for the implementation of the decision. This research relates to this study as it also looked at the drivers of outsourcing although in the telecommunication industry. In this study therefore the aim will be to establish whether similar or different factors influence outsourcing practices employed by the shipping firms in Kenya.

2.6 Summary of Previous Studies and Knowledge Gap

The concept of outsourcing strategy has been expounded both in the literature as well as from the empirical studies done on the subject area. It was found out that outsourcing strategy has become a common practice among firms worldwide and this is due to the various benefits that accrue to a firm as a result of adopting outsourcing strategy. Firms evaluate outsourcing to determine if current operation costs can be reduced and if saved resources can be reinvested in more competitive processes. Contracting out production of goods and services to a firm with competitive advantages in terms of reliability, quality and cost was found out to be the main driver of outsourcing. However the various studies covered have not extensively delved into outsourcing strategy in relation to the shipping firms in Kenya. As a result, this study explored the extent to which shipping firms in Kenya apply outsourcing strategy and the factors influencing the application.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research design used, population of study, data collection instruments and procedures, and the techniques for data analysis.

3.2 Research Design

The study was carried out using a cross-sectional survey research design. This research design was applied so as to collect data from a cross-section of shipping firms on the outsourcing strategies employed by these firms. This was deemed appropriate in collecting information from the entire spectrum of the population, (Kothari 2004).

Specifically this study utilized a census approach as all shipping firms in Kenya were surveyed. Census surveys have been found to be most accurate in making comparisons and generalizations (Bryman & Bell, 2007).

3.3 Population of the Study

The population of study was the 21 shipping companies which are based in Kenya according to the KPA handbook 2013/14 (see appendix 2). This handbook is renewed annually and therefore features the most recent listing of registered shipping companies in Kenya. The shipping companies comprise the liners and the agents, which both constitute the population.

This was deemed necessary since agents act on behalf of liners whose headquarters are based in a foreign country. A census survey was therefore preferred since the population size was small. The entire population has offices in Mombasa, and therefore, data collection was easily accessible and timely.

3.4 Data Collection

The study used primary data that was collected through a self-administered questionnaire that consisted of both open and closed ended questions that were designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaire had three sections. The first section contained questions on the bio data of the shipping firms and respondents; the second part focused on the outsourcing practices employed by the firms and part three concentrated on the factors influencing choice of outsourcing strategy.

The targeted respondents were the senior managers in charge of outsourcing. Only one respondent was targeted in each company. The questionnaires were administered by drop and pick method while others were sent via email.

3.5 Data Analysis

The data collected from the survey was edited for completeness, uniformity, accuracy and consistency. The data was also coded to classify responses into meaningful categories to enable data analysis. Considering the qualitative nature of the data collected through questionnaires, descriptive statistics were used to analyze the data. Frequency tables were used to summarize responses for further analysis and to facilitate comparison. This offered a systematic and qualitative description of the objectives of the study.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The objectives of this study were to establish the outsourcing practices employed by shipping firms in Kenya and determine the factors influencing the application of outsourcing strategy among the shipping firms in Kenya. Out of the sample of 21 firms, 18 (86%) responded to the questionnaire. This was considered adequate for the objectives of this study. In this chapter, the analyzed data is presented together with the relevant interpretations and discussion. Findings have been presented in three parts: General information firms, information relating to the outsourcing strategy and factors influencing the adoption of outsourcing strategy.

4.2 General Information on Firms

The study collected data on the general information of the shipping firms. This covered the years of operation in Kenya, category of organisation and TEUs of cargo handled per month. The data collected was presented in tables and figures as shown below.

4.2.1 Years of operation in Kenya

The study captured data on how long the shipping firms had been in operation in Kenya. This was intended to establish whether the firm had sufficient years of experience in the shipping industry in Kenya. The data collected is presented on Table 4.1.

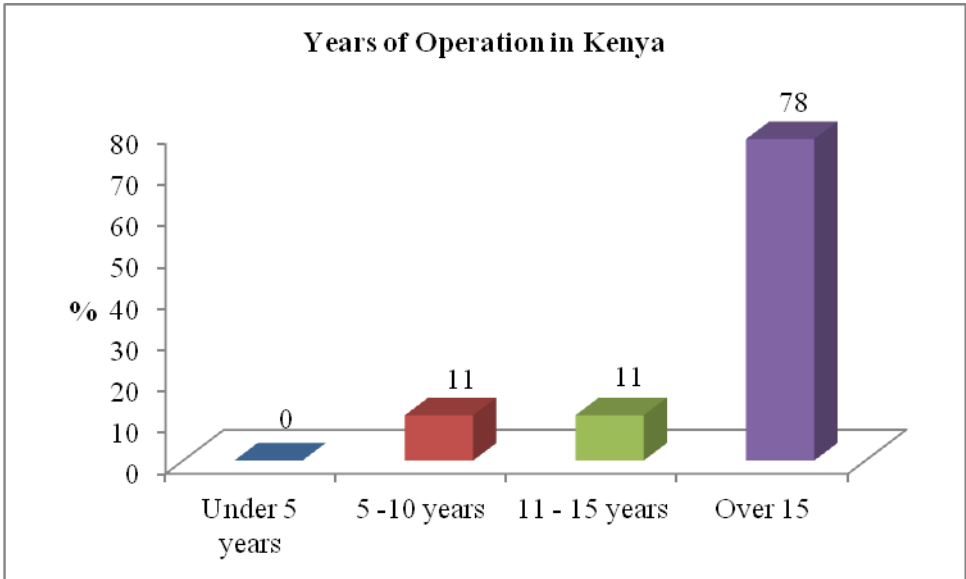
Table 4.1: Years of operation in Kenya

Range	Frequency	Percentage (%)
Under 5 years	0	0
5 -10 years	2	11
11 - 15 years	2	11
Over 15	14	78
Total	18	100

Source: Research data (2014)

Table 4.1 indicates that 2 (11%) out of the 18 firms have been in operation in Kenya for 5 to 10 years as well as 11 to 15 years while 14 (78%) have been in operation for over 15 years. None of the firms surveyed had operated in Kenya for less than 5 years. The results therefore indicate that all the firms surveyed had operated in Kenya for more than 5 years. These results are further displayed on Figure 4.1.

Figure 4.1: Years of Operation in Kenya



Source: Research data (2014)

4.2.2 Category of Organisation

The study further sought to establish whether the shipping firm was a shipping line, sole shipping line agent or a multi shipping line agent. This aimed to find out the size of the firm as well as the level of operation. Data collected was grouped into frequencies and percentages as shown in Table 4.2.

Table 4.2: Category of Organisation

	Frequency	Percentage (%)
Shipping Line	3	17
Sole Shipping Line agent	9	50
Multi-shipping line agent	6	33
TOTAL	18	100

Source: Research data (2014)

Table 4.2 indicates that out of the 18 firms which responded 3 (17%) were shipping lines, 9 (50%) were sole shipping lines while 6 (33%) were multi-shipping line agents. This implies that most of the firms surveyed were shipping line agents.

4.2.3 TEUs of Cargo per month

Data on the Twenty-foot Equivalent units (TEUs) of cargo handled by the shipping firms was aimed to establish the volume of business the firms handle per month. The findings are tabulated below.

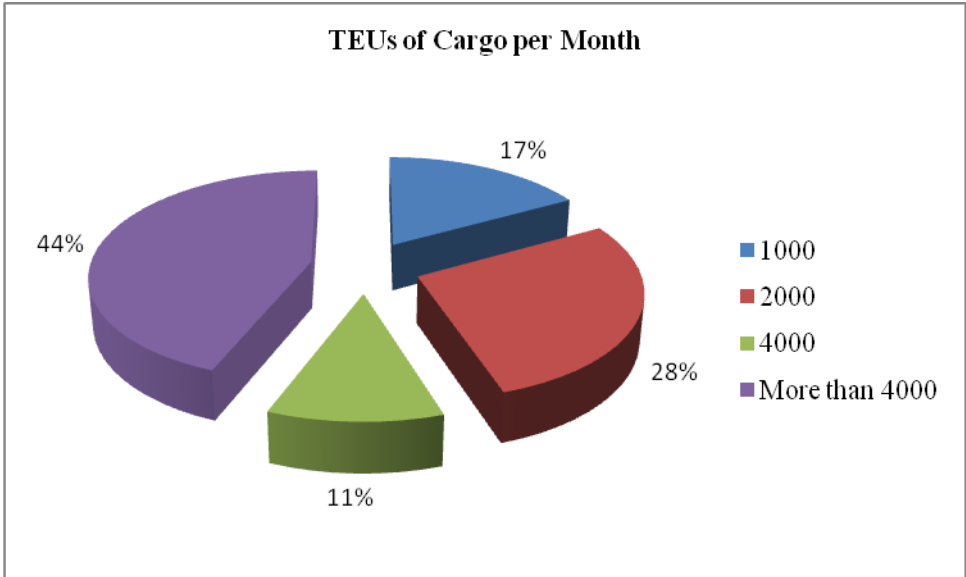
Table 4.3: TEUs of Cargo per month

TEUs	Frequency	Percentage (%)
1000	3	17
2000	5	28
4000	2	11
More than 4000	8	44
Total	18	100

Source: Research data (2014)

Table 4.3 above indicates that 3 (17%) of the firms surveyed handle 1000 TEUs per month, 5 (28%) 2000 TEUs per month while 2 (11%) 4000 TEUs per month. The table also shows that 8 firms (44%) handle more than 4000 TEUs per month. This implies that a total of 83% of the firms surveyed handle 2000 TEUs and above of cargo per month. These results are also presented on Figure 4.2.

Figure 4.2: TEUs of Cargo per Month



Source: Research data (2014)

4.3 Outsourcing Practices Employed by Shipping Firms

The study also investigated the outsourcing practices employed by the shipping firms. Data on the outsourcing practices was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the firm rated the outsourcing practice as no extent. A mean score of 1.5 to 2.5 implies little extent, 2.5 to 3.5 moderate and 3.5 to 4.5 implies large extent while a mean score of more than 4.5 implies a very large extent. Standard deviation of less than 1 means that there were no significant variations in responses while greater than 1 implies that there were significant variations in the responses.

4.3.1 Outsourcing Practices Employed by Shipping Firms

The study sought to establish to what extent the shipping firms employed outsourcing practices in various functional areas. The results obtained were analysed using mean scores and standard deviation and presented on Table 4.4.

Table 4.4: Outsourcing Practices Employed by Shipping Firms

Outsourcing Practice	Mean	Std deviation
Transportation management	3.5	0.92
Warehouse management	3.7	0.83
Information Management	3.6	0.70
Inventory Management	2.1	0.76
Material handling management	3.0	0.69
Procurement services	3.8	0.81
Human resource management	3.9	0.8
Accounting and Auditing	3.2	1.1
Facilities Management	3.2	1.1
Security services	3.9	0.7
Overall	3.4	0.8

Source: Research data (2014)

Table 4.4 shows that the shipping firms rated the following as large extent: transportation management (3.5), warehouse management (3.7), information management (3.6), procurement services (3.8), human resource management (3.9) and security services (3.9). Material handling management (3.0), accounting and auditing (3.2) and facilities management (3.2) were all rated as moderate extent. Inventory management was rated as little extent with a mean score of 2.1. The overall standard deviation of 0.8 indicates that there were no significant variations in the responses.

4.3.2 Outsourcing Strategies Employed by Shipping Firms

The study went further to explore the outsourcing strategies employed by the shipping firms in Kenya. The strategies of interest were purchasing, selective and total outsourcing. Results obtained are presented on table 4.5.

Table 4.5: Outsourcing Strategies Employed by Shipping Firms

Strategy	Frequency	Percentage (%)
Purchasing Outsourcing	2	11
Selective Outsourcing	6	33
Total Outsourcing	10	56
Total	18	100

Source: Research data (2014)

Table 4.5 indicates that 2 (11%) of the firms use purchasing outsourcing strategy, 6 (33%) selective outsourcing while 10 (56%) use total outsourcing strategy. The results indicate that more firms use total outsourcing strategy.

4.4 Factors Influencing the Adoption of Outsourcing Strategy

The study went further to investigate the factors influencing the adoption of outsourcing strategy. Data on the key factors was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the firm rated the outsourcing practice as no extent. A mean score of 1.5 to 2.5 implies little extent, 2.5 to 3.5 moderate and 3.5 to 4.5 implies large extent while a mean score of more than 4.5 implies a very large extent. Standard deviation of less than 1 means that there were no significant variations in responses while greater than 1 implies that there were significant variations in the responses.

Table 4.6: Factors influencing adoption of Outsourcing Strategy

Factor	Mean	Std deviation
The desire to gain competitive advantage	3.4	1.0
The need to free management efforts to concentrate on core activities of the company	3.0	1.0
Availability of Technology and innovation in the Market	3.3	1.0
Availability of third party logistics providers	4.1	0.6
Increase of mergers and Acquisitions	2.7	1.1
The need to improve productivity in the company	3.4	0.8
Globalization of business	3.6	0.9
The need to reduce operating costs	4.2	0.9

Factor	Mean	Std deviation
The need to improve customer service	4.4	0.6
It is a downsizing strategy by the company	3.0	0.9
The desire by the management to reduce lead times and wastage	2.9	1.1
Company Policy	3.7	1.0
Overall	3.5	0.9

Source: Research data (2014)

Table 4.6 shows that the following factors were rated as large extent: Availability of third party logistics providers (4.1), globalization of business (3.6), the need to reduce operating costs (4.2), the need to improve customer service (4.4) and company policy (3.7). The other factors were all rated as moderate extent. These include: The desire to gain competitive advantage (3.4), the need to free management efforts to concentrate on core activities of the company (3.0), availability of technology and innovation in the market (3.3), increase of mergers and acquisitions (2.7), the need to improve productivity in the company (3.4), it is a downsizing strategy by the company (3.0) and the desire by the management to reduce lead times and wastage (2.9). This implies that all firms rated these factors as important to a large extent (grand mean = 3.5) in deciding whether to adopt outsourcing strategy. There were no significant variations in the responses as the overall standard deviation was 0.9.

4.5 Discussion

The first objective of the study was to establish the outsourcing practices employed by shipping firms in Kenya. Results on the outsourcing practices showed that transportation management had a mean score of 3.5, warehouse management 3.7, information management 3.6, procurement services 3.8, human resource management 3.9 and security services 3.9. This implies that the shipping firms outsource these services to a large extent. Material handling management had a mean score of 3.0, accounting and auditing 3.2 and facilities management 3.2. This indicates these services are outsourced to a moderate extent by the shipping firms. Inventory management is outsourced to a little extent as its mean score was 2.1. The overall standard deviation was 0.8 indicating that there were no significant variations in the responses.

The second objective of the study was to establish the outsourcing strategy employed by the shipping firms in Kenya. Results showed that 2 (11%) of the firms surveyed use purchasing outsourcing strategy, 6 (33%) selective outsourcing while 10 (56%) use total outsourcing strategy. These results indicate that more firms use total outsourcing strategy. The third objective was to determine the factors influencing the application of outsourcing strategy among the

shipping firms in Kenya. Availability of third party logistics providers had a mean score of 4.1, globalization of business 3.6, the need to reduce operating costs 4.2, the need to improve customer service 4.4 and company policy 3.7. This implies that the shipping firms consider these factors to a large extent when deciding whether to adopt outsourcing strategy. The other factors were all rated as moderate extent. The desire to gain competitive advantage had a mean score of 3.4, the need to free management efforts to concentrate on core activities of the company 3.0, availability of technology and innovation in the market 3.3, increase of mergers and acquisitions 2.7, the need to improve productivity in the company 3.4, as a downsizing strategy by the company 3.0 and the desire by the management to reduce lead times and wastage 2.9. This implies that all firms rated these factors as important to a large extent (grand mean = 3.5) in deciding whether to adopt outsourcing strategy. There were no significant variations in the responses as the overall standard deviation was 0.9.

The findings of this study therefore indicate that the Shipping firms in Kenya practice outsourcing strategy in non-core activities. These results are in line the findings of Neemeka (2011) who studied the implementation of the business process outsourcing strategy in Standard Chartered bank Kenya. From the study findings, it was concluded that the business operations that Standard Chartered Bank Kenya Limited outsources included information systems, accounting, auditing, archiving, cash sorting, product design, security personnel, transport, training, market probe services, facilities management, card transaction monitoring, network services outsourcing and payroll. The study also concluded that the factors that drive Standard Chartered Bank Kenya Limited to outsource its business operations include a need to realize cost efficiency; for technical considerations, increase productivity/performance and the need to focus on core activities. These factors are similar to those that the shipping firms consider in adopting outsourcing strategy. These findings also agree with those of Ichoho (2013) who looked at implementation of outsourcing strategy at the Nairobi Hospital, Kenya. The study established that the Nairobi Hospital had been outsourcing services for more than three decades. The study established that Nairobi Hospital considered factors such as the need to reduce and control operating cost, improve the focus of the hospital, gain access to world class capability, free resources for other purposes, when resources are not available internally, to accelerate re-engineering benefits, to efficiently provide functions that are too complex to manage and to share risks. King'ori (2013) studied strategic outsourcing at Airtel Kenya. The results indicated that the decision to outsource at Airtel Kenya was largely driven by the parent company Bharti Airtel of India which had extensive outsourcing experience in India. However, forces in the macro

environment and the competitive environment provided justification for the implementation of the decision. The findings of this research were also similar to those in this study.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The core idea behind strategic outsourcing is to benefit in some manner from allowing outside entities to take over the operation and management of a given function. Those benefits can take many different forms. Often, the idea is to increase the bottom line of a company by reducing various operating expenses. At other times, the benefit has to do with having immediate access to professionals who specialize in handling the outsourced function, without the need to train personnel to take over those functions.

In the shipping industry, firms have adopted various competitive strategies in order to stay ahead of competition and win consumers' loyalty. Shipping companies use outsourcing strategy due to increased levels of vessel charter hire costs and the high cost of fuel or bunker. Outsourcing helps the firms to keep at par with competitors while ensuring a return on investment coupled with certain, albeit diminishing profit margin.

The objectives of this study were to establish the outsourcing practices and strategy employed by shipping firms in Kenya and also determine the factors influencing the application of outsourcing strategy among the shipping firms in Kenya. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

5.2 Summary

The overall objective of this study was to assess the application of Outsourcing Strategy among shipping firms in Kenya. The first objective of the study was to establish the outsourcing practices employed by shipping firms in Kenya. Results on the outsourcing practices showed that the shipping firms outsource transportation management, warehouse management, information management, procurement services, human resource management and security services to a large extent. Material handling management, accounting and auditing and facilities management are outsourced to a moderate extent. Inventory management is outsourced to a little extent. This implies that the shipping firms apply outsourcing strategy on both core and non-core activities. Transportation management and warehouse management can be seen as core functions in the shipping industry. Human resource management and security services can be regarded as non-core activities in the shipping industry.

The second objective of the study was to establish the outsourcing strategy employed by the shipping firms in Kenya. Results showed that most of the firms surveyed use total outsourcing. Total outsourcing means that the shipping firms outsource all of the specific activities

The third objective was to determine the factors influencing the application of outsourcing strategy among the shipping firms in Kenya. The results of the study indicate that availability of third party logistics providers, globalization of business, the need to reduce operating costs, the need to improve customer service and company policy influence to a large extent the outsourcing decisions. The desire to gain competitive advantage, the need to free management efforts to concentrate on core activities of the company, availability of technology and innovation in the market, increase of mergers and acquisitions, the need to improve productivity in the company, downsizing strategy by the company and the desire by the management to reduce lead times and wastage are considered to a moderate extent.

5.3 Conclusion

Based on the findings above, it can be concluded that majority of the shipping companies surveyed outsource to a large extent various services which include transportation management, warehouse management, information management, procurement services, human resource management and security services. However the shipping firms outsource material handling management, accounting and auditing and facilities management to a moderate extent. Inventory management was found to be outsourced to a little extent.

As regards the outsourcing strategy employed by the shipping firms, the study found out that most of them preferred selective outsourcing, followed by total outsourcing. Selective outsourcing is where one part of the specific activities while total outsourcing is where a firm outsources all of the specific activities.

The findings on the factors influencing adoption of outsourcing strategy revealed that the firms considered most of the factors to be of utmost importance. Among the factors that were highly rated included the availability of third party logistics providers, globalization of business, the need to reduce operating costs, the need to improve customer service and company policy. The other factors which were rated as important include the desire to gain competitive advantage, the need to free management efforts to concentrate on core activities of the company, availability of technology and innovation in the market, increase of mergers and acquisitions, the need to improve productivity in the company, as a downsizing strategy by the company and the desire by

the management to reduce lead times and wastage. Most shipping firms therefore agreed that outsourcing strategy was important and had numerous advantages which aim at increasing their service delivery and competitiveness.

5.4 Recommendations

The study revealed that there were some gaps in a number of dimensions in the outsourcing practices adopted by the shipping firms in Kenya. Although most of the shipping companies highly practice outsourcing strategy, a few of them still are not consistent in their application. The study shows that the firms do outsource a variety of services using selective and total outsourcing strategies. The study also shows that the shipping firms consider outsourcing strategy to be an important practice in the industry as it gives them a competitive edge. Most of the firms agree that outsourcing strategy is the way to go in the shipping industry.

This study therefore recommends that the management of the shipping firms should consider adopting more outsourcing practices especially in non-core activities in order to cut their costs of operation. The shipping industry in Kenya has become more competitive due to globalization trends in the business world. This calls for constant environmental scanning in order to identify the strengths, opportunities, weaknesses and threats. The firms will be able to identify the appropriate outsourcing strategy to enhance their position in the market place. Policies should also be formulated on what key areas the firms can outsource and which ones they should not. The firms should also consider establishing a department in charge of outsourcing to deal with all outsourcing issues. Part of its responsibilities will be to constantly monitor the performance of the outsourcers and regularly reviewing the need to outsource.

5.5 Suggestions for Further Research

The study was conducted on shipping companies only. The findings can be verified by conducting the same study on other industries as well. This will help to identify if other industries also employ the same or different outsourcing practices as well as establishing whether similar factors influence their choices of the outsourcing strategy. The study findings are according to the firms' management point of view. The scope of the study may also be extended to cover the views of other key stakeholders in the shipping industry such as regulators, the ports authority, ship suppliers and the revenue authority.

5.6 Limitations of the Study

The study was limited to the perspective of the Shipping companies in Kenya and not the entire Shipping sector which includes the Ports Authority, Regulators, Ship Suppliers, Ship Maintenance firms, the Revenue Authority etc. Out of 21 shipping firms 18 filled and returned the questionnaires. The response rate was therefore 86% with a none-response rate of 14%. Some respondents did not also fill in some of the key data that was essential in coming up with the findings and conclusions.

5.7 Implications of the Study

The findings of this study clearly indicate that shipping firms in Kenya employ outsourcing strategy. This implies that they regard outsourcing strategy as important in increasing their competitiveness by reducing operational costs on non-core activities. For the policy makers this study indicates that appropriate regulations should be put in place in order to enable the industry to access services not only locally but also internationally. Shipping firms should be encouraged to outsource more activities in order to give more business to the outsourcers as well as enabling them to concentrate on their core functions. This will go a long way in cutting down their operational costs and increase their profit margins. Regular reviews of the outsourcing strategy should also be conducted with a view to establishing whether the outsourced functions are still beneficial to the firm or should be done away with.

This study has also set the arena for future scholars and researchers to investigate other areas of strategy in the shipping industry. There is need for more research on this industry to unravel the global outsourcing aspects and shed more light.

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APPENDICES

Appendix 1: Letter to respondents



UNIVERSITY OF NAIROBI MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
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Tel: 020 2059161
Mombasa, Kenya

DATE: 30TH SEPTEMBER, 2014

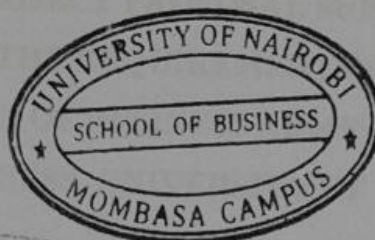
TO WHOM IT MAY CONCERN

The bearer of this letter, Kaveke Dennis Muluvi of Registration Number D61/69634/2011 is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on ***Application of Outsourcing Strategy Amongst Shipping Firms in Kenya***. We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

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

Thank you.



Zephaniah Ogero Nyagwoka

Administrative Assistant, School of Business-Mombasa Campus

Appendix 2: Questionnaire

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

PART 1: GENERAL INFORMATION

1) Name of the company:

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

3. Gender: Male () Female ()

4. What is your age bracket? (Tick as applicable)

a) Under 30 years ()

b) 31 – 40 years ()

c) 41 – 50 years ()

d) Over 50 years ()

5. Length of continuous service with the organization?

a) Less than five years ()

b) 5-10 years ()

c) Over 10 years ()

6. For how long has your company been in operation in Kenya?

a) Under 5 years ()

b) 6 – 10 years ()

c) 11 – 15 years ()

d) Over 16 years ()

7. Please indicate the category in which your company belongs to:

a) Shipping Line ()

b) Sole Shipping Line Agent ()

c) Multi Shipping Line Agent ()

d) Others (please specify): _____

8. How many twenty foot equivalent units (TEUs) of cargo does your firm handle per month?
(Please tick one)

- a) Less than 1000 ()
- b) 1000 - 2000 ()
- c) 2000 - 4000 ()
- d) More than 4000 ()

PART 2: OUTSOURCING PRACTICES EMPLOYED BY SHIPPING FIRMS

9. Please indicate in the table below the extent to which your company outsources the following activities. Rate each activity on a scale of 1-5 as shown below.

Activity	1	2	3	4	5
	No extent	Little extent	Moderate extent	Large extent	Very large extent
Transportation management					
Warehouse management					
Information Management					
Inventory Management					
Material handling management					
Procurement services					
Human resource management					
Accounting and Auditing					
Facilities Management					
Security services					
Others: (List and rate accordingly)					

10. Outsourcing Strategies

Please select outsourcing modes which you are using in your organization.

- Purchasing Outsourcing []
- Selective Outsourcing []
- Total Outsourcing []

Purchasing outsourcing- outsources some implemented task temporarily to supplement an in-house labour force during times of heavy work load.

Selective outsourcing – outsources one part of the specific activities

Total outsourcing- outsources all of the specific activities

PART 3: FACTORS INFLUENCING THE ADOPTION OF OUTSOURCING STRATEGY

11. Please indicate the extent to which the following factors have influenced the adoption of outsourcing strategy in your firm. **Kindly tick (√) as appropriate.**

Factor	1	2	3	4	5
	No extent	Little extent	Moderate extent	Large extent	Very large extent
The desire to gain competitive advantage					
The need to free management efforts to concentrate on core activities of the company					
Availability of Technology and innovation in the Market					
Availability of third party logistics providers					
Increase of mergers and Acquisitions					
The need to improve productivity in the company					
Globalization of business					
The need to reduce operating costs					
The need to improve customer service					
It is a downsizing strategy by the company					
The desire by the management to reduce lead times and wastage					
Company Policy					

Thank you for your time and co-operation

Appendix 3: List of Shipping Firms in Kenya

- 1) African Liner Agencies Ltd
- 2) Bat-haf Barwil Agencies Ltd
- 3) Delmas Kenya Ltd
- 4) Diamond Shipping Services Ltd
- 5) Green Island Shipping Services Ltd
- 6) Inchcape Shipping
- 7) Maersk Kenya Ltd
- 8) Motaku Shipping Agencies
- 9) Oceanfreight K Ktd
- 10) P.I.L. (K) Ltd
- 11) Seabulk Shipping Services Ltd
- 12) Seaforth Shipping Kenya Ltd
- 13) Spanfreight Shipping Ltd
- 14) Spear's Shipping Agents (K) Ltd
- 15) Sturrock Shipping Kenya Ltd
- 16) Global Container Lines
- 17) Ignazio Messina & Co
- 18) CGM CMA
- 19) Mediterranean Shipping Co
- 20) P&O Nedlloyd east Africa Ltd
- 21) WEC Lines Kenya Ltd

Source: *KPA Handbook 2013/14* (www.kpa.co.ke)