OUTSOURCING PRACTICES AND OPERATIONAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

EDWARD ACHOLA

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DECLARATION

I, the undersigned, declare that this research proposal is my own work and has never been presented in any other university or college for a degree or any other award.

Signed: ________________________ **Date ___________________**

NAME: EDWARD ACHOLA **REG NO:** D61/79689/2012

This research proposal report has been submitted for examination with my approval as the University Supervisor.

Signed:____ Date:_____________________

SUPERVISOR: DR. MAGUTU OBARA. P.

Senior Lecturer; Department of Management Science

School of Business University of Nairobi

DEDICATION

I dedicate this work to my family Dr. Achola Okudo, Mrs. Jane Achola, my siblings George, Paul and Sylvia for your understanding, patience and moral support throughout the period of my study. Your prayers and continued encouragement kept me focused and resilient towards accomplishment of this worthy task.

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ABSTRACT

The study sought to investigate the effect of outsourcing practices on performance of commercial banks in Kenya. The study was guided by three theories; the resource based theory, transaction cost theory and the core competencies theory. The study adopted a descriptive research methodology and conducted a census on 44 commercial banks that are licensed to operate in Kenya. Data was collected with the aid of questionnaires presented to the respondents who were employees of the commercial banks. Data was analyzed using software, a regression model fitted and the relationship between the independent and dependent variables shown by the co-efficient of correlation. The mean and standard deviation were used to measure the central tendency and dispersion. The findings revealed that outsourcing has a positive and significant effect on the operational performance of banks. Information technology if outsourced, is capable of handling the most demanding customer requirements. When desired, order information can be exchanged between trading partners. The benefit of fast Information flow is directly related to work balancing. It makes little sense for a bank to accumulate orders at a local branch for a week, mail them to head office, process the orders in a batch, and return them to branch to achieve fast delivery. From the study, a conclusion was arrived at, that outsourcing is a critical element of organizational strategy, as a powerful vehicle to reduce costs and improve performance. There is no doubt that the rapid change will affect today's business world, in other words it will revolutionize the traditional business and job paradigms. This volatile and changing atmosphere compels commercial banks to adapt their structures and strategies to a greater degree than they used to do. Nowadays, organizations trend to become small core big network forms. Thus, companies choose a limited number of tasks to do and entrust the rest of their tasks to an outside supplier. Therefore, the significance of outsourcing and its key role in illustrating network center organizations is clear.

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

IT	Information Technology
RBT	Resource Based Theory
BPO	Business Process Outsourcing
CBK	Central Bank of Kenya
MFC	Mortgage Finance Company
DTM	Deposit-Taking Microfinance Institutions
CRB	Credit Reference Bureaus
TCE	Transaction Cost Economics

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Outsourcing of business processes is one of the key outcomes of the technological advancement. Due to its IT-intensive business processes the potential for outsourcing appears to be particularly high in the banking industry. This is further enhanced by the fact that most of the data in the banking sector are in digital from coupled with increased use of internet Gewald and Dibbern (2005). Operating performance has long been at the center of academic research and has received a substantial amount of attention. This is primarily due to the fact that operating efficiency is of particular interest for both managers, whose aim is to improve the performance of their financial firms, and policy makers, whose task is to assess the effects of market structure on performance and, therefore, to safeguard the stability of the financial system (Berger and Mester, 1997). Operational practices like total quality management or just in time have been seen as a way to improve operational performance and ultimately financial performance.

Outsourcing therefore has received and continues to receive growing attention in the competitive business environment. Largely, economic reasons have had their contribution in this increasing importance of outsourcing issues (Heywood, 1996; Laabs, 1998; and Foster, 1999). Capabilities behind the practice is what drives performance, a result consistent with the Resource based theory (RBT) of strategy (Barney & Clark, 2007). Fourth, imitation of successful practices continuously wears out financial benefits through competition, following the RBT logic. Finally, given all the above points, large samples are necessary to have the power to identify relationships that may have been weakened or diluted by all of these factors (Tan, Kannan and Narasimhan, 2007).

The examination of operations has become more prominent in both the business community and academia in recent years, spanning such diverse areas as: business process outsourcing (BPO), systems outsourcing and applications outsourcing (Gillis 2002). In Kenya, there is significant rise in outsourcing activities in the banking sector. Surprisingly, in a survey conducted by the Central Bank of Kenya, a number of financial institutions have no risk management frameworks, Central Bank of Kenya (2005). In addition, there is currently, no regulatory guideline on outsourcing. This study makes important contribution to financial services research. To the best knowledge of the authors, to date, there is no study that has examined outsourcing practices of the Kenyan banking sector, and within the wider Africa context. Thus, this study, provide an exploratory finding in this field in the Kenyan context, and presents opportunities for further research. In addition, the findings of the study have important regulatory policy contributions. (Stock & Mulki, 2009). Such differentiation may allow firms to maintain or gain market share, increase revenue, and possibly reduce transportation and inventory costs through efficiencies (Manson, 2002).

1.1.1 Outsourcing Practices

Outsourcing, most often, is understood as the contracting out of a business process to a third-party, with participation in a separate organizational unit, or without participation. There have been many reasons for outsourcing selected in the literature, but the first position extends to striving to reduce operating costs. When a range of activities are outsourced, organizational problems can be gotten rid, and the core business can be concentrated on (Quelin, Duhamel, 2003). According to A. M. Porter’s studies, the tasks assigned to outsourcing concentrated on three areas: information technology, human resources, and marketing & sales (Porter A. M , 2000). Many factors influence using outsourcing encouragement, or dealing with some trouble.

Outsourcing can be contracted-out to entities operating in the same country, or entities operating in another country. The increased interest in outsourcing services results not only from the lower cost of providing such services, but also from satisfactory quality of services, which is directly related to the increasing level of education in the local society.

Outsourcing is one of the key outcomes of the technological advancement advances in banking industry. Due to its IT-intensive business processes the potential for outsourcing appears to be particularly high in the banking industry. This is further enhanced by the fact that most of the data in the banking sector are in digital from coupled with increased use of internet (Gewald and Dibbern, 2005).

Outsourcing is one of the key outcomes of the technological advancement advances in banking industry. A firm should consider its customer needs when executing outsourcing practices in order to meet their expectations; this cannot be achieved without top management support. The management should allocate resources necessary for management practices through employee training and managing of relationships with its partners and customers. Communication is an essential component in operations management practices process since it ensures an effective response to customers' service problems to meet the needs of the customers (Atasu & Cetinkaya, 2006).

Outsourcing is increasingly being used as a means of both reducing costs and achieving strategic goals (Basle Committee, 2005). Other factors include; Key in on company's main business, obtain outside expertise, meet constantly changing customer demands and achieving revenue increases. Globally, regulators concern is how banks manage risks associated with a third party offering certain key services (Basle Committee, 2005). Beasley and Pagach, (2004) suggest that outsourcing poses multitudes of risks to a numbers of firm's functions such as finance, human capital, Information Technology and operations. In Kenya, there is significant rise in outsourcing activities in the banking sector.

1.1.2 Operational Performance

Operational performance refers to the measurable aspects to the outcomes of organizational processes such as reliability. Operational performance in turn affects business performance measures such as market share and customer satisfaction (Voss et al, 1995). Operations performance marches the degree to which an operation fulfills the five generic objectives of quality, speed, dependability, flexibility and cost. Some kind of performance measurement is a pre-requisite for judging whether an operation is good, bad or indifferent. Performance measurement is the process of quantifying action, where measurement means the process of quantification and the performance of the operation is assumed to derive from actions taken by an organization. Without performance measurement, it would be impossible to exert any control over an operation on ongoing basis, (Stuart and Robert, 2010).

1.1.3 Commercial Banks in Kenya

As at 31st December 2012, the banking sector comprised of the Central Bank of Kenya as the regulatory authority, forty four banking institutions (forty three commercial banks and one mortgage finance company - MFC), four representative offices of foreign banks, six Deposit-Taking Microfinance Institutions (DTMs), one hundred and eighteen Forex Bureaus and two Credit Reference Bureaus (CRBs) (CBK, 2012). Out of the forty four banking institutions, thirty one locally owned banks comprise three with public shareholding and twenty eight privately owned while thirteen are foreign owned. The six DTMs, two CRBs and one hundred and eighteen forex bureaus are privately owned. The foreign owned financial institutions comprised of nine locally incorporated foreign banks and four branches of foreign incorporated banks. According to Central Bank of Kenya (2012) out of the forty three commercial banks thirty of them are domestically owned and thirteen are foreign owned. In terms of asset holding, foreign banks accounted for about 35% of the banking assets as of 2012.

There is great need for bank managers to periodically evaluate their bank's performance levels and critically analyses the link between outsourcing and operations performance of their respective banks to allow them make strategic decisions on allocation of resources and technological development in order to improve on efficiency, (Yang,2009). Outsourcing in non-core objectives may militate against the lapses becomes extremely important for Kenya to pursue expansionary monetary and fiscal policies, among others, to deal with effects of the domestic violence and the global financial crises to restore financial stability (Were & Tiriongo, 2012). In addition, Kenya like other bank regulators all over the world undertook fundamental reforms of the international prudential framework for the banking sector with the goal of creating a more resilient banking sector and ensuring overall financial stability (Bank of International Settlements (BIS), 2009).

Procurement practices for banks includes the following operations; being able to precisely define the actual business needs, thoroughly analyzing and understanding the economics of the industry from which goods or services will be supplied, understanding to what degree of competition or partnering is appropriate based on the magnitude of potential savings and business risk from switching suppliers. Strategic procurement hence, is a coordinated, holistic process that aligns actual business needs and requirements with service acquisition and then measures the performance, (Adhiambo, 2012).

1.2 Research Problem

Heightened competition within business environments have forced firms to embrace and adopt response operational strategies among them outsourcing which is a viable business option in bid to gain competitive edge by outsourcing non-core functions to an outside organization and concentrating on internal reengineering. The reengineering process is referred to the fundamental rethinking and radical change in the business outlook, focusing on broader business issues, employing resources towards developing new tools, technologies and skills. A dramatic improvement in performance may be realized, providing value to the customer in terms of productivity, quality, service and speed. This will hence offer customers a greater performance at lower cost. The commercial banks in Kenya have had to operate in an increasingly competitive environment and the trend is expected to continue as industry regulators and government policies are directed towards a competitive local and foreign banking industry and rapid advancements in mobile banking.

Empirical studies on ties between quality practices and organizational performance are mixed. Powell (1995), did a study the impact of some elements of TQM programs on the creation of competitive advantage. A number of valuable studies on likely variables necessitating need for outsourcing have been undertaken, 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. Ernest & Young (2012) global report on the future of network operations confirms that the way communications operators provision and manage their networks will continue to undergo profound change. Rising cost pressures and dramatic increases in data traffic is driving operators to make use of third party providers for network management, infrastructure rollout and system integration.

Locally there have been a number of valuable studies on outsourcing, (Gakii, 2010; Oyugi, 2010; Malachy, 2010; Gulamhusein, 2011) all of which present evidence that outsourcing practices have been put into practice in Kenya. These studies (Gakii, 2010) and (Oyugi, 2010) indicate that the outsourcing practices if properly implemented can contribute positively to the corporate performance of the firm. Although there is a growing body of literature that focuses on efficiency and performance of banking industries in other countries as shown above, limited study has been conducted in Kenya in the post-crisis period to evaluate the factors affecting efficiency of commercial banks in Kenya.

Therefore, this study seeks to fill the gap by determining whether Kenyan commercial banks perform outsourcing, and what is the effect of such operations' factors such as productivity, profitability, asset quality, financial management, bank size and ownership structure on efficiency. Equally, the study will seek to provide answers to the question, what is the impact of the outsourcing and operations performance of commercial banks in Kenya?

1.3 Research Objectives

The objectives of this study were:

i. To establish the outsourcing practices used by commercial banks in Kenya.

ii. To determine the relationship between the outsourcing practices and operations performance of commercial banks in Kenya.

1.4 Value of the Study

This study makes important contribution to financial services research. This study, provide an exploratory finding in outsourcing practices of the Kenyan banking sector, and within the wider Africa context, and presents opportunities for further research. In addition, the findings of the study have important regulatory policy contributions.

To the regulator, the findings of the study shall provide recommendations to for continuous developments with tremendous changes in policy, technology, regulation, supervision and risk management controls especially after the global financial crisis. Also on the global front, previous lapses and stringent regulatory measures have become more prominent as a move towards having a stable and more competitive banking sector with efficient banks. The findings in this study is expected to offer new insights to financial policy makers, banking sector regulators, bank managers and other related practitioners on the factors affecting efficiency of commercial banks from the Kenyan perspective.

The study will also be useful to the Management practice in the finance sector. The research will help the Commercial Banks to identify the possible ways of reducing costs and achieving strategic goals. The findings of this study will enable credit consumers to make informed decisions on the interest rates charged by MFIs and the appropriate loan sizes to apply for.

The study will prove important in providing information to scholars and academicians especially those in the field of finance and banking who may wish to conduct further study on this subject area and other related aspects of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. First a review of theories is presented highlighting on the theories on outsourcing. Secondly, a review of empirical studies that shows the relationship between outsourcing and operations performance of commercial banks and the conceptual argument. The summary and conclusion on the literature reviewed is also indicated as well as the research gap therein.

2.2 Theoretical Review

Outsourcing consists of different activities and each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. Much of the studies on outsourcing have been affected by three approaches: Resource-Based View, Core Competency Approach, and Transaction Cost Theory.

2.2.1 Resource-based View

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

The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness (Penrose E, 1959; Henry A, 2008). According to Perunović and Pedersen, the most prominent use of the resource-based theory in outsourcing process is the preparation phase for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor (Perunović Z, 2007). Organizations will plug gaps in resources and capabilities in the most cost-effective manner to maintain a distinctive product and its competitive advantage (Urquhart C, 2002).

2.2.2 Core Competences Approach

The concept of core competences has been developed on the basis of the resource-based theory. Prahalad and Hamel (1990) defined the core competencies as the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams technologies. The application of concept of core competences in outsourcing became very popular among researchers. The concept has been predominantly use to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and Reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina and Ross, 2003; Feeney et al., 2005).

The essence of the core competency theory is that it should be kept in-house, but that other activities that the organization deals with, which are not counted to be core or critical to its function, should be considered for outsourcing (Prahalad CK, 2003; Urquhart C, 2002).According to Henry “a core competence can be thought of as a cluster of attributes that an organization possesses which in turn allows it to achieve competitive advantage” (Henry A; 2008). If the organization is to focus on its core competencies as the basis of its sustainable competitive advantage, then activities which do not constitute a core competence for the firm can be given to outside firms who can provide these at lower cost. Additionally, transaction cost theory has been developed to facilitate an analysis of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures (Kay N. Coase, 2005).

2.2.3 Transaction Cost Economics (TCE)

The unit of analysis in transaction cost theory is a transaction, which by the words of Williamson “occurs when a good or service is transferred across a technologically separate interface” (Williamson OE, 1985). Decision-makers must weigh up the production and transaction costs associated with executing a transaction within their firms – insourcing, versus the production and transaction costs associated with executing the transaction in the market – outsourcing. Organizations can choose whether to buy from the market or to develop in-house, the decision is based on the relative cost, which is combined from the costs of production and costs of the transaction.

Transaction cost economics has been the most utilized theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the Managing relationship phase, whilst the concept of switching costs made the theory applicable in the reconsideration phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity. Though TCE has not been utilized explicitly for studying the Vendor selection phase, its sub-theory the theory of incomplete contracting, has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. Even though it has been exercised extensively in outsourcing applications, the TCE has several indulgencies. Lacity and Willcocks (1995) found that the original mapping to the TCE framework only explained few IT sourcing decisions and generated much more anomalies in their sample. Another critique could be that TCE relies on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. Finally, TCE is static, which doesn't correspond to dynamism of current business environment.

2.3 Outsourcing Practices

The main outsourcing practices adopted by commercial banks generalized into business process outsourcing (BPO) and outsourcing of Information Technology practices. The outsourcing of IT can further be classified into systems outsourcing and applications outsourcing (Gillis, 2002).

2.3.1 Information Technology (IT)

Information Technology outsourcing can be defined as "the delegation, through a contractual arrangements, of all or any part of the technical resources, human resources, and the management responsibilities associated with providing IT services to an external vendor" (Clark, Zmud, and McGray, 1995). The decision to outsource IT-related activities, be they operational, system development, or business process activities, has three main objectives: to reduce costs, to improve service quality, and to place greater focus on core business activities

(Bahli and Rivard, 2003, 2005). Traditionally, firms manage their IT infrastructure through their in-house IS organizations under what is termed "insourcing." The outsourcing of information technology (IT) has recently emerged as an important phenomenon that is accompanied by profound implications for the shape of the new information systems (IS) organization. While the traditional focus of research on the IT function has been internally focused on the relationship between IS and line management (for example, the centralization - IS decentralization issue; King (1993).

2.3.1.1 Systems Outsourcing

Systems outsourcing refers to pure technology, such as operating systems, network management, desktop management, data center management, disaster recovery and other generic aspects of technology. In every areas of production, order processing, demand forecasting and customer demand functions are interrelated; Johnson and Wood (1996). A bank as a service enterprise also faces order processing in kindred transactions like foreign exchange, standing order and money transfer services. Delay in processing or errors in filling necessary document can result in lower customer services levels and higher cost to clients. Similar effects arise when a bank cannot accurately forecast customer demand for cash say in its banking halls or at its ATM points or service counters within a branch premise. A bank that integrate elements of demand forecasting, order processing and transit time-management will maximize the beneficial effect of applying information technology through improved customer services.

Current information technology is capable of handling the most demanding customer requirements. When desired, order information can be exchanged between trading partners. The benefit of fast Information Flow is directly related to work balancing. It makes little sense for a bank to accumulate orders at a local branch for a week, mail them to head office, process the orders in a batch, and return them to branch to achieve fast delivery. Internet communication of orders direct from the customer, combined with slower, less costly surface transportation, may achieve even faster and more constant delivery service at a lower total cost. The key objective is to balance components of the logistical system (Masella, & Rangone, 2000).

In the area of call centers end-user-experience is deemed to be of lower quality when a service is outsourced. This is exacerbated when outsourcing is combined with offshoring to regions where the first language and culture are different. Foreign call center agents may speak with different linguistic features such as accents, word use and phraseology, which may impede comprehension. The visual cues that are missing in a telephone call may lead to misunderstandings and difficulties.

2.3.1.2 Applications Outsourcing

Applications outsourcing includes the work related to banks everyday business such as lending, taking deposits and dealing with customers. According to the survey conducted by Accenture in 2003, applications outsourcing is most widely applied by banks. Commercial banks mostly outsource, credit card processing and mortgage processing (Accenture Newsroom Home 2003).

Applications outsourcing enable commercial banking institutions to achieve greater transparency and efficiency of their infrastructure and business processes, which facilitates the achievement of their strategic operational goals (Gupta, Gupta 1992, Gonzalez, Gasco & Llopis 2010). It gives banks the opportunities to access to world class skills, realize fast project start-up and borrow best examples in the banking industry. All of these translate into lower costs and higher quality, which increase the competitiveness of banks.

Greater physical distance between higher management and the production-floor employees often requires a change in management methodologies, as inspection and feedback may not be as direct and frequent as in internal processes. This often requires the assimilation of new communication methods such as voice over IP, instant messaging, and Issue tracking systems, new time management methods such as time tracking software, and new cost- and schedule-assessment tools such as cost estimation software.

2.3.2 Business Process Outsourcing (BPO)

Occurs where a supplier takes over responsibility for one or more of an organisation's business processes (Borman 2006). The banking industry has been characterized as an industry that is transforming itself in unpredictable ways (Crane and Bodie, 1996) and an industry in which competitive advantage is difficult to achieve (Bhide, 1986). In order to build and maintain long- term competitive health in the banking industry outsourcing would be necessary. Business process outsourcing indicates the labor-intensive work that does not rely heavily on technology. It could apply to procurement, accounts payable, call center, human resource, billing and collection, back-office operations and other labor-intensive functions. Some larger financial services organizations choose to extend their sourcing strategy to include other outsourced services such as ITO systems and software, human resources outsourcing and benefits services, finance and accounting outsourcing (FAO) services, procurement or training outsourcing.

Business process outsourcing has become a strategic-level choice of firms. A considerable number of outsourcing deals have emerged as one of the most important business decisions for firms that want to improve firm performance and add firm value. Today IT outsourcing has become a very common way of allocating or reallocating business resources from an internal source to an external source (Parkhe 2007).

Banking BPO services are typically defined by industry analysts, advisors and leaders in the sourcing industry, such as the set of discrete processes or transactional activities that support the lending lifecycle as follows: New customer acquisition services include telemarketing activities, application processing, underwriting, customer or merchant credit evaluation and verification, credit approval, document processing, account opening and customer care and on-boarding. Account servicing processes for credit cards or consumer loans (Barako, 2008). These most commonly include payment processing systems and services, customer service or call center support operations (voice, digital, email and mail services), product renewals, and loan disbursement; document management services such as printing and mailing of statements, networked printing and storage solutions; collections, recoveries processing, default management, risk management and foreclosure. Consumer and commercial lending post origination transaction processing services, such as check processing, clearance and settlement services, remittance, and records management. Back office transaction process management for loans or credit card portfolios, including custody services, fraud mitigation and detection, regulatory and program compliance, portfolio analytics, reporting, conversions, management of technology platforms, interface for customer data and custom development (Jiang, 2006).

2.4 Operations Performance

Operations performance is the use of statistical evidence to determine progress toward specific defined organizational objectives. It measures how well the commercial bank is doing. A clear understanding of the expectations and the relevant schedule is essential in the supplier selection and implementation of the business relationship latter on, (Nigel, 2010).

Operations performance marches the degree to which an operation fulfills the five generic objectives of quality, speed, dependability, flexibility and cost. Some kind of performance measurement is a pre-requisite for judging whether an operation is good, bad or indifferent. Performance measurement is the process of quantifying action, where measurement means the process of quantification and the performance of the operation is assumed to derive from actions taken by an organization. Without performance measurement, it would be impossible to exert any control over an operation on ongoing basis, (Stuart and Robert, 2010).

Quality, speed, dependability, flexibility and cost composite measures may be further aggregated by using measures such as 'achieve financial objectives', achieve operations objectives' or even 'achieve overall strategic objectives'. The more aggregated performance measures have greater strategic relevance insomuch as they help to draw a picture of the overall performance of the business, although by doing so they necessarily include many influences outside those that operations performance improvement would normally address (Robert, 2010). The more detailed performance measures are usually monitored more closely and more often, and although they provide a limited view of an operation's performance, they do provide a more descriptive and complete picture of what should be and what is happening within the operation. In practice, most organizations will choose to use performance targets from throughout the range. Some detailed performance measures are defects per unit, level of customer complaints, scrap level, mean time between failures, lateness complaints, customer query time, order lead time, throughput time, time to market, product range, transaction costs, labor productivity and machine efficiency (Nigel, Stuart and Robert, 2010).

One of the problems of devising a useful performance management system is trying to achieve some balance between having a few key measures on one hand (straightforward and simple, but may not reflect the full range of organizational objectives), and, on the other hand, having many detailed measures (complex and difficult to manage, but capable of conveying many nuances of performance). Broadly, a compromise is reached by making sure that there is a clear link between the operation's overall strategy, the most important performance indicators that reflect strategic objectives, and the bundle of detailed measures that are used to 'flesh out' each key performance indicator. Obviously, unless strategy is well defined then it is difficult to target a narrow range of key performance indicators customers (Nigel, Stuart and Robert, 2010).

2.5 The relationship between Outsourcing and Operations Performance

Outsourcing is a critical element of organizational strategy, as a powerful vehicle to reduce costs and improve performance (Holcomb & Hitt, 2007). Commercial Banks also need to gain ability to meet increasing needs through reducing costs and increasing flexibility in delivering services and outsourcing is one of the important ways to reach these goals. There is no doubt that this rapid change will affect today's business world, in other words it will revolutionize the traditional business and job paradigms. This volatile and changing atmosphere compels commercial banks to adapt their structures and strategies to a greater degree than they used to do. Nowadays, organizations trend to become "small core - big network" forms. Thus, companies choose a limited number of tasks to do and entrust the rest of their tasks to an outside supplier. Therefore, the significance of outsourcing and its key role in illustrating network center organizations is clear (Frayer, 2000).

In a typical commercial bank branch-network, physical cash, stationery, equipment, furniture and personnel must inevitably be moved from certain sources to different destinations. Rising branch network and widespread adoption of information technology rather than eliminate this has enhanced the requirement for careful planning of resource movements between points and reinforces the need for better arrangement that will ensure communication smoothing and seamless resource transfer between head-offices, branches and clients locations. Empirical studies on the relationship between logistics planning and organizational efficiency abound especially in the developed nations of Europe and Americas (Peter, 1991; Douglas, 1998; & Siems, 2005).

Literatures also exist that undertake an impact analysis between resources, operations and cost efficiency in the Commercial banking sector (Osayameh, 1983; Adam, 2001; Teriba, 2004; Adebola, 2008; Ogunbuka, 2010). Most of these studies at best do not connect banking practices with logistics management. Operational costs involved in moving information and other resources through a supply chain invariably determine an organization 'bottom-line' performance.

Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Gupta and Zeheuder, 1994; Greer, 1999), increase capacity, improve capacity, improve quality (Lau and Hurley, 1997; Kotabe, 1998), increase profitability and productivity (Sinderman, 1995; Casale, 1996), improve financial performance (Crane, 1999), lower innovation costs and risks (Quinn, 2000), and improve organizational competitiveness (Lever, 1997; Sharpe, 1997; Steensma and Corley, 2000). Nevertheless, outsourcing does generate some problems, as outsourcing usually reduces an organization's control over how certain services are delivered, which in turn may raise the organization's liability exposure.. This paper therefore, explores the possibility of bridging this study gap.

2.6 Summary of the Literature Review and Knowledge Gap

The empirical literature encompasses the need for outsourcing practices and how it influences operations in firms. Previous studies by Adebola (2008) and Ogunbuka (2010) laid more focus on outsourcing and operations; the studies did not address issues of outsourcing practices and profitability of commercial banks in Kenya. The need to establish the efficiency of resource movement between component units of a bank has implications on its operational cost.

However, it's important to shade light of by doing everything on its own, an organization may have a difficult time trying to eliminate risks, and usually run the risk of spending too much on infrastructural capital. Consequently, this eats into their profitability and reduces their chances of growing their organization's businesses. However, through outsourcing, organizations can minimize their risks with regard to huge infrastructural expenditures and the overall result of this issue is that more investors will be attracted to such organizations. Outsourcing is good for business because there are certain situations that can be avoided through it. For instance, organizations that perform all their business functions may have to spend huge amounts on replacing obsolete technology. However, when that business function is outsourced, then organizations will not even the feel the pinch.

Attempts are further made to investigate among others; the cost implications occasioned by resource channeling within a bank structural network, what improvement models are available as means for enhancing outsourcing management of resources within this structure. This study therefore finds it necessary to address this gap by determining outsourcing practices used by commercial banks in Kenya and the relationship between outsourcing and profitability of commercial banks in Kenya. Outsourcing practices is one of the ways in which commercial banks can use to increase their profitability through production of value added goods and services at a reduced cost which in return will lead to improved customer satisfaction.

2.7 Conceptual Framework

Management must step in and rebuild trust among the workers, and jobs may need to be evaluated and expanded or changed to fit the new organization. This can be achieved through support and involvement of top management and by providing incentives to employees and vendors who meet and exceed the contracted performance expectations (Jones, 1997; Foster, 1999). Another factor is to acquire the right people, with the right skills involved in all phases of outsourcing activities. Early in the evaluation, persons must be identified as to who will take leadership responsibility, perform the analysis, and make the decisions. Adequate supporting infrastructures, commitment by top management, and development of objective performance criteria were among the factors contributed to successful outsourcing projects.

Properly defined performance criteria for an outsourcing engagement are objective, quantifiable, and collectible at a reasonable cost, and should be metrics, which can be benchmarked against performance of other organizations and providers (Ramarapu, 1997; Kleepes and Jones, 1999). Other factors identified among the top priorities in successful firms include adequate performance feedback, emphasis on both short and long-term benefits, anticipation of change for both good and bad times and accommodation of cycles of demand that require an adjustment in services. Nevertheless, unsuccessful firms identified the fear of change, including fear of job loss as the most serious problem facing their outsourcing efforts.

Dealing with these fears through communication and honesty is important to managing this factor (Jones, 1997; Quinn, 2000). A poor choice of outsourcing partners was the second most serious problem facing unsuccessful organizations. Establishing strategic supplier alliances and adoption of the philosophy that the firm is a partner with the suppler may help alleviate this problem (Lau and Hurley, 1997). The individuals responsible for managing the outsourcing relationship should receive specific training that includes a complete understanding of the business goals of the contract, the specific performance criteria agree to, and individual roles. This training and communication can also help reduce resentment or resistance (Foster, 1999).

The Figure below describes the relationship between the variables of study.

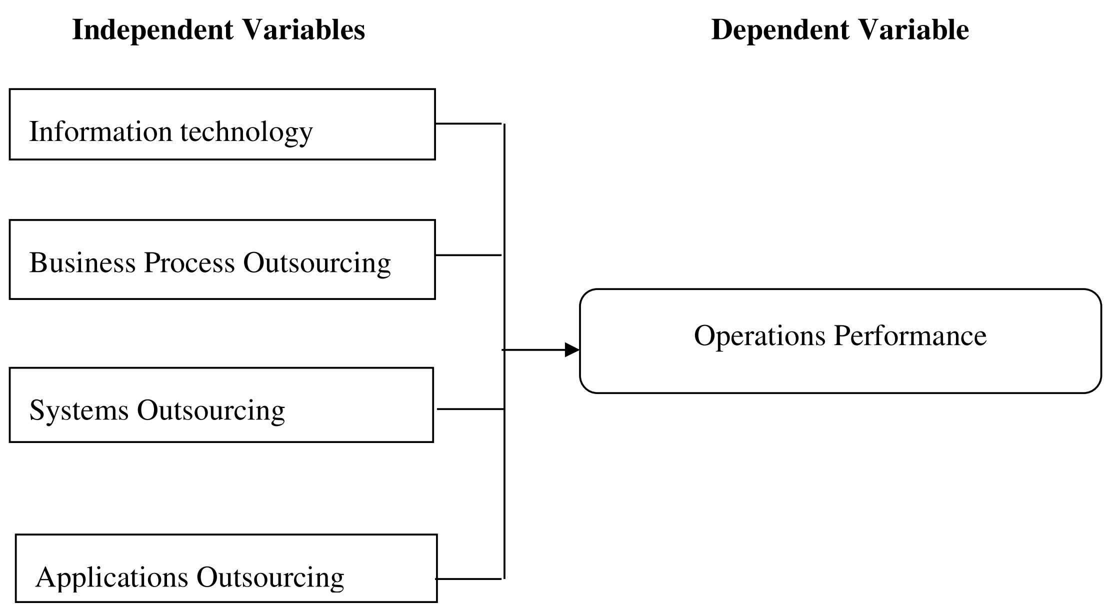

Figure 2.1

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section gives a detailed analysis of the research design, target population, sampling technique, data collection instruments and procedures and data analysis.

3.2 Research Design

A descriptive survey design will be used for this study. With such a study, information will be obtained to meet the underlying purposes and objectives of the study. Descriptive survey will be useful in investigating the existing relationships among the variables that will be captured in this study.

3.3 Population of the Study

The population of this study will include all commercial banks in Nairobi, Kenya. According to the Kenya Bankers Association (2014), there are 44 commercial banks in Kenya.

3.4 Sample Design

A sampling design includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals (Mugenda & Mugenda, 2003). According to Kothari (2005), a representative sample of 30% of the population is appropriate for the study. Therefore a sample size of 44 which includes all the commercial banks in Kenya will be used.

3.5 Data Collection

According to Cooper & Emory (1995), a survey is feasible when the population is small and variable hence the researcher will be able to cover all the elements of the population. Hence the survey will be considered to be more efficient and economical.

The study will use primary and secondary data that will be collected through a self-administered questionnaire that will be designed to elicit specific responses for qualitative and quantitative analysis respectively. The researcher will conduct a cross sectional study on the outsourcing practices used by commercial banks in Kenya. Secondary data will be obtained from a number of sources: Audited financial statements, from Kenya Association of Banks and any other relevant publication. The questionnaires will have three sections.

The first section will contain questions on the bio data of the commercial banks in Kenya, the second part will contain questions on the first objective of this study which is to determine outsourcing practices used by commercial banks in Kenya, and the third part of the questionnaire will contain questions on the performance of commercial banks in Kenya.

The respondents for this study will be the heads Procurement or supply Chain department and management, officers in charge of materials management of the banks or their equivalents. The questionnaires will be administered by a drop and pick later method at an agreed time with the researcher.

3.6 Data Analysis

The data collected will be analyzed using descriptive statistics which will involve measures of central tendency and dispersion to achieve the first objective of the study. Objective two will be analyzed using a regression model. The regression model will be used for establishing the relationship between outsourcing and profitability of commercial banks in Kenya. The model adopted will consist of five variables: The independent variables are outsourcing practices while the dependent variable is performance commercial banks.

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + €$$

YF= Profitability of commercial banks/ Operational Income

β1= Operating expenditure as a proportion/percentage of total earnings.

β2= Operating overheads as a proportion/percentage of operating income

β_3= Interest Expense as proportion or percentage of bank Gross Earnings

β_4= Interest Expense as a proportion or percentage of bank total interest income

β_5= Total cost of operation as a proportion of total expense

β_0 and X =Regression Constants

€= Error term.

The study will use a linear regression model to show the relationship between outsourcing and profitability of Commercial banks in Kenya. Effective implementation of outsourcing leads to profitability of commercial banks in Kenya.

CHAPTER FOUR

ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter comprised of data analysis, findings and interpretation. Results were presented in tables and diagrams. The analyzed data was arranged under themes that reflected the research objectives.

4.1 Response Rate

The number of questionnaires that were administered was 44. A total of 42 questionnaires were properly filled and returned. This represented an overall successful response rate of 95.45% as shown on Table 4.1. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Based on these assertions from renowned scholars, 95.45% response rate is very good for the study as shown in Table 4.1 below.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	42	95.45%
Unreturned	2	4.55%
Total	**44**	**100%**

4.2 Demographic Characteristics

This section consists of information that describes basic characteristics such as level of management, age, years worked and level of education of the respondents.

4.2.1 Level of Management

The respondents were asked to indicate their level of management. Majority of the respondents were on top management who represented 53%, 33% were on the middle management while 14% were at low management level. This implies that the survey captured the right people with the company information since majority were at top management.

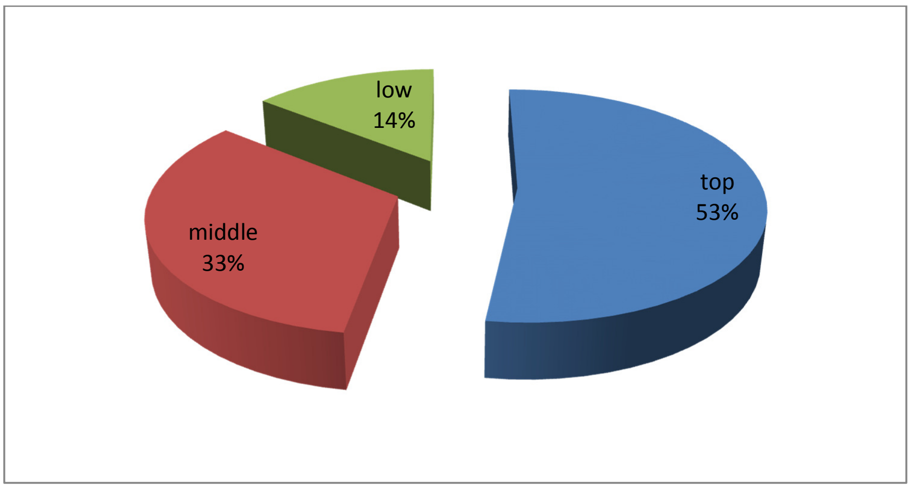

Figure 4.1: Level of Management

4.2.2 Age of the respondents

Respondents were requested to indicate their age brackets. Majority of the respondents who was 45% were on age bracket of 40-49 years.31% were above 50 years, 14% were between 30-39 years while 10% who were the least were less than 29 years old.

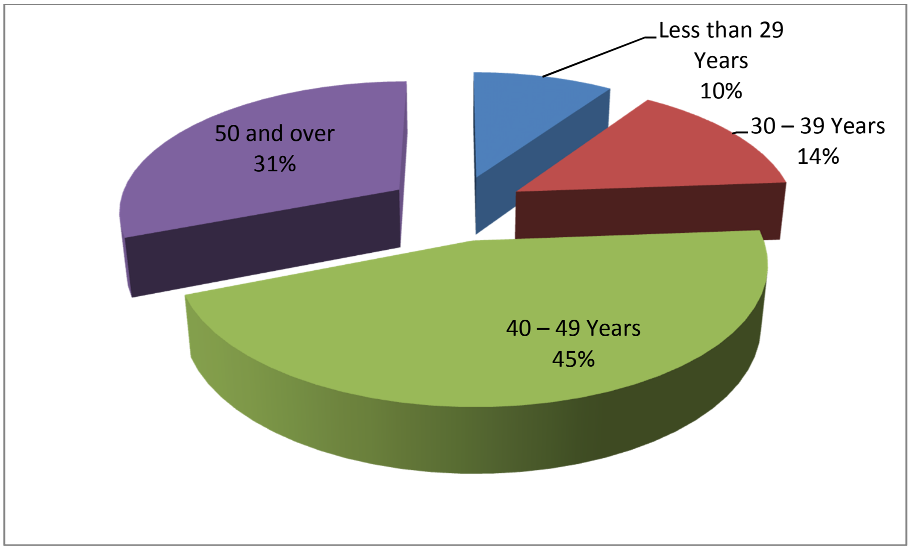

Figure 4.2: Age of Respondents

4.2.3 Duration of being in the employment

On the question of the duration being in employment, majority of the respondents (52%) have been in the employment for 6-10years, 24% have been in the employment for over 11 years, 14% have been in the employment for 1-5 years while 10% have been in employment for a period less than 1 year.

This implies that majority of the respondents have been in the employment for a good period of time thus they were experienced.

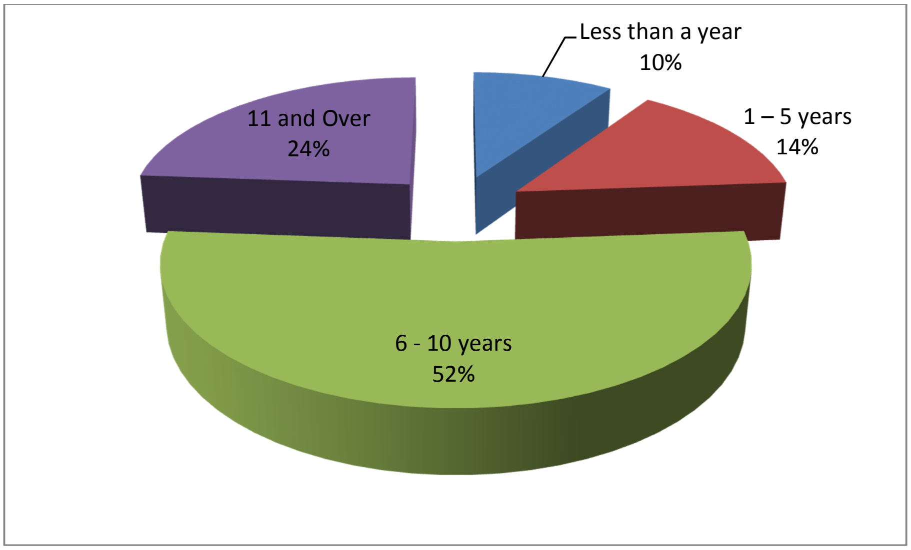

Figure 4.3: Duration of being in employment

4.2.4 Highest Level of Education

The respondents were asked to indicate their highest level of education. Results in figure 4.4 show that 62% of the respondents had their highest level of education being master level, 24% had degree qualification while 14% had PhD. qualification. In as far as the title of study is concerned, the results imply that, the respondents were expected to understand the questionnaire and give valid response since they had better understanding as guided by the their level of education which in this case majority having university as the highest level of education.

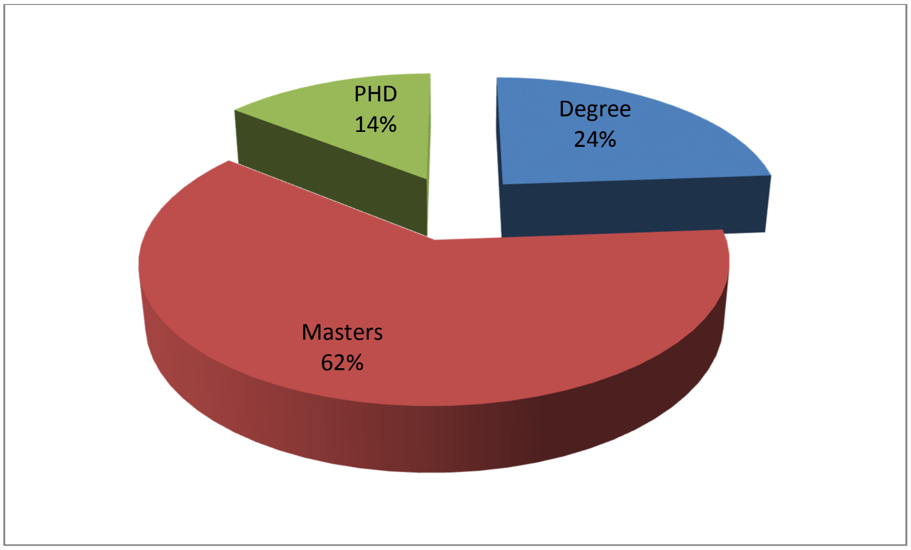

Figure 4.4: Highest level of Education of Respondents

4.3 Descriptive Statistics

This section presents the descriptive results on IT outsourcing, system outsourcing, application outsourcing and business process outsourcing.

4.3.1 IT Outsourcing

The respondents were asked to respond on statements on IT outsourcing. The responses were rated on a five Likert scale as presented in Table 4.2. From the findings (mean 4.24 < 0 > 3.5) show that respondents agree that IT services are outsourced at the bank. Majority of 81%(52.4%+26.4%) of the respondents agreed with the statement that the bank has a contractual delegation of IT services to an external vendor, 71.4% agreed with the statement that the bank has a contractual agreement on the provision of technical resources required in the IT department, 59.4% of the respondents agreed that the bank has contracted out the management responsibility of its IT services, 80.9% of the respondents agreed that the bank has delegated the expertise and human resources in the IT department., while 81% of the respondents agreed that the bank has outsourced the operations of the IT resources and services to an external vendor.

Indication: On a five point scale, the average mean of the responses was 3.89 which mean that majority of the respondents were agreeing that IT is outsourced at the Bank; however the answers were varied as shown by a standard deviation of 1.103

Table 4.2: IT Outsourcing

Statement	N	Mean	Std. Dev.
The bank has outsourced the operations of the IT resources and services to an external vendor.	42	4.24	0.983
The bank has a contractual delegation of IT services to an external vendor	42	3.95	1.011
The bank has a contractual agreement on the provision of technical resources required in the IT department.	42	3.9	1.165
The bank has delegated the expertise and human resources in the IT department.	42	3.86	1.049
The bank has contracted out the management responsibility of its IT services	42	3.5	1.311
Average		**3.89**	**1.103**

4.3.2 System Outsourcing

The results presented in Table 4.3 below show that to a great extent (4 < 0 > 3.6) the bank does systems outsourcing. 50% (9.5%+40.5%) of the respondents agreed that the bank has extended its systems outsourcing strategy to acquisition and maintenance of operating systems, 66.7% of the respondents agreed that the bank has extended its systems outsourcing strategy to manage internet banking., 73.9% of the respondents supported that the bank has extended its systems outsourcing strategy to desktop management services, 78.6% agreed that the bank has extended its systems outsourcing strategy to secure data center management services. while 71.5% agreed that the bank has extended its systems outsourcing strategy to network management.

Indication: Using a five point scale Likert mean, the overall mean of the responses was 3.79 which indicates that majority of the respondents agreed to a great extent that systems are outsourced at the commercial banks. Additionally, the standard deviation of 1.18 indicates that the responses were varied.

Table 4.3: Systems Outsourcing

Statement	N	Mean	Standard Deviation.
The bank has extended its systems outsourcing strategy to secure data center management services.	42	4	1.059
The bank has extended its systems outsourcing strategy to desktop management services	42	3.9	1.055
The bank has extended its systems outsourcing strategy to network management	42	3.76	1.206
The bank has extended its systems outsourcing strategy to manage internet banking.	42	3.67	1.223
The bank has extended its systems outsourcing strategy to acquisition and maintenance of operating systems	42	3.62	1.378
Average		**3.79**	**1.18**

4.3.3 Applications Outsourcing

The results presented in Table 4.4 show that to a great extent (3.95< 0 > 3.76) the banks outsource application services. 71.4% (33.3%+38.1%) of the respondents agreed that the bank has embraced the use of mobile banking applications for clients to manage their accounts. Further results found that the bank has outsourced the development and maintenance of banking applications to an external vendor as indicated by 61.9% of the respondents. Results also showed that 66.6% of the respondents agreed that the bank has embraced the use of Voice over IP applications to enhance communication with the bank's branches. In addition, results show that 66.7% of the respondents agreed that the bank has embraced the use of instant messaging applications to enhance communication with the bank's branches. Further, 73.8% of the respondents agreed that the bank has embraced the use of issue tracking applications to enhance transactions security.

Indication: The average Likert scale of the responses is 3.82 which indicates that majority of the respondents agreed to a great extent that Application services are outsourced. The standard deviation was 1.23 which indicates that the responses were varied.

Table 4.4: Application Outsourcing

Statement	N	Mean	Std. Dev
The bank has embraced the use of issue tracking applications to enhance transactions security.	42	3.95	1.188
The bank has embraced the use of instant messaging applications to enhance communication with the bank's branches.	42	3.83	1.167
The bank has embraced the use of mobile banking applications for clients to manage their accounts.	42	3.81	1.273
The bank has outsourced the development and maintenance of banking applications to an external vendor.	42	3.76	1.265
The bank has embraced the use of Voice over IP applications to enhance communication with the bank's branches.	42	3.76	1.246
Average		**3.82**	**1.23**

4.3.4 Business Process Outsourcing

Results in table 4.5 show that to a large extent (4.24 < 0 > 3.67) the banks do business process outsourcing. 73.7% (38.1%+35.6%) of the respondents agreed that the bank has outsourced some procurement procedures , 64.3% of the respondents agreed that the bank has outsourced the call center services, 66.7% of the respondents agreed that The bank has outsourced the human resource services , 66.6 % of the respondents agreed that the bank has outsourced the back office operations. while 85.7% of the respondents indicated that the bank has embraced finance and accounting outsourcing (FAO) services.

Indication: On an average Likert scale the responses had an overall mean of 3.89 which indicated that the respondents agreed to a large extent that the banks do business process outsourcing. The standard deviation of 1.07 indicates that the responses were varied.

Table 4.5: Business Process Outsourcing

Statement	N	Mean	Std. Dev
The bank has embraced finance and accounting outsourcing (FAO) services,	42	4.24	0.692
The bank has outsourced some procurement procedures	42	3.95	1.081
The bank has outsourced the human resource services	42	3.9	1.206
The bank has outsourced the back office operations	42	3.71	1.293
The bank has outsourced the call Centre services	42	3.67	1.074
Average		**3.89**	**1.07**

4.4 Inferential Statistics

Inferential analysis was conducted to generate correlation results, model of fitness, and analysis of the variance and regression coefficients.

4.4.1 Correlation Analysis

Table 4.7 below presents the results of the correlation analysis. The results revealed that IT outsourcing and operational performance are positively and significant related (r=0.374, p=0.015). The table further indicates that system outsourcing and operational performance are positively and insignificantly related (r=0.241, p=0.124). It was further established that application outsourcing and operational performance were positively and insignificantly related (r=0.311, p=0.045) while business process outsourcing and operational performance were also positively and significantly related (r=0.241, p=0.125). This implies that an increase in any unit of the variables leads to an improvement in performance.

Table 4.6: Correlation Matrix

		performance	**_IT outsourcing**	**System outsourcing**
Performance	Pearson Correlation	1.000		
	Sig. (2-tailed)			
IT Outsourcing	Pearson Correlation	.374*	1.000	
	Sig. (2-tailed)	0.015		
System Outsourcing	Pearson Correlation	0.241	-0.142	1.000
	Sig. (2-tailed)	0.124	0.371	
Application Outsourcing	Pearson Correlation	.311*	.336*	0.017
	Sig. (2-tailed)	0.045	0.029	0.913
Business Process Outsourcing	Pearson Correlation	0.241	-0.037	-0.007
	Sig. (2-tailed)	0.125	0.815	0.965

* Correlation is significant at the 0.05 level (2-tailed).

4.4.2 Regression Analysis

The results presented in table 4.7 present the fitness of model used of the regression model in explaining the study phenomena. IT outsourcing, system outsourcing, application outsourcing and business process outsourcing were found to be satisfactory variables in explaining operational performance of banks. This is supported by coefficient of determination also known as the R square of 34.3%. This means that IT outsourcing, system outsourcing, application outsourcing and business process outsourcing explain 34.3% of the variations in the dependent variable which is performance. This results further means that the model applied to link the relationship of the variables was satisfactory.

Table 4.7: Model Fitness

Indicator	Coefficient
R	0.586
R Square	0.343
Adjusted R Square	0.272
Std. Error of the Estimate	0.3817357

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.8 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of performance. This was supported by an F statistic of 4.828 and the reported p value (0.003) which was less than the conventional probability of 0.05significance level.

Table 4.8: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.814	4	0.703	4.828	**0.003**
Residual	5.392	37	0.146		
Total	8.206	41			

Regression of coefficients results in table 4.9 shows that IT outsourcing and operational performance are positively and significant related (r=0.314, p=0.02). The table further indicates that system outsourcing and operational performance are positively and significant related (r=0.28, p=0.039). It was further established that application outsourcing and operational performance were positively and insignificantly related (r=0.238, p=0.11) while business process outsourcing and operational performance were also positively and significantly related (r=0.265, p=0.0037)

Table 4.9: Regression of Coefficients

Variable	B	Std. Error	T	sig.
(Constant)	-0.36	1.008	-0.357	0.723
IT outsourcing	0.314	0.129	2.422	0.02
System outsourcing	0.28	0.131	2.137	0.039
Application outsourcing	0.238	0.146	1.638	0.11
Business process outsourcing	0.265	0.122	2.168	0.037

4.5. Discussion

Thus, the optimal model for the study is;

Operational performance of banks= -0.36 + 0.314 IT outsourcing + 0.28 system outsourcing+ 0.238 application outsourcing + 0.265 outsourcing.

From the above model it is clear that the co-efficient do not deviate far from the goodness of fit; an indication that there is a close relationship between the dependent and the independent variables. A unit change in IT outsourcing explains 0.314 change in operational performance of banks. A unit change in system outsourcing explains 0.28 changes in operational performance and a unit change in application outsourcing explains 0.238 changes in operational performance. Finally a unit change in general outsourcing explains 0.265 change in operational performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addresses the summary of the findings, the conclusions and the recommendations.

5.2 Summary of Findings

This section provides a summary of the findings from the analysis. This is done in line with the objectives of the study.

5.2.1 IT Outsourcing

The findings revealed that IT outsourcing has a positive and significant effect on the operational performance of banks. This is also supported by the statements in the questionnaire which majority of the respondents agreed.

This findings agree with that of Bahli and Rivard, (2005) who argued that the decision to outsource IT-related activities, be they operational, system development, or business process activities, has three main objectives: to reduce costs, to improve service quality, and to place greater focus on core business activities. Traditionally, firms managed their IT infrastructure through their in-house IS organizations under what is termed "in sourcing." The outsourcing of information technology (IT) has recently emerged as an important phenomenon that is accompanied by profound implications for the shape of the new information systems (IS) organization.

5.2.2 System Outsourcing

The findings showed that system outsourcing has a positive and significant effect on the operational performance of banks. This is also supported by the statements in the questionnaire which majority of the respondents agreed.

This is consistent with that of Masella, & Rangone, (2000) who argued that current information technology is capable of handling the most demanding customer requirements. When desired, order information can be exchanged between trading partners. The benefit of fast Information Flow is directly related to work balancing. It makes little sense for a bank to accumulate orders at a local branch for a week, mail them to head office, process the orders in a batch, and return them to branch to achieve fast delivery. Internet communication of orders direct from the customer, combined with slower, less costly surface transportation, may achieve even faster and more constant delivery service at a lower total cost. The key objective is to balance components of the logistical system.

5.2.3 Application Outsourcing

The findings indicated that application outsourcing has a positive but insignificant effect on the operational performance of banks. This is also supported by the statements in the questionnaire which majority of the respondents agreed.

This finding agrees with that of Gupta, Gupta 1992, Gonzalez, Gasco & Llopis (2010) who argues that applications outsourcing enable commercial banking institutions to achieve greater transparency and efficiency of their infrastructure and business processes, which facilitates the achievement of their strategic operational goals. It gives banks the opportunities to access to world class skills, realize fast project start-up and borrow best examples in the banking industry. All of these translate into lower costs and higher quality, which increase the competitiveness of banks.

5.2.4 Business Process Outsourcing

The findings indicated that business process outsourcing has a positive and significant effect on the operational performance of banks. This is also supported by the statements in the questionnaire which majority of the respondents agreed.

This finding is consistent with that of Parkhe (2007) who argues that business process outsourcing has become a strategic-level choice of firms. A considerable number of outsourcing deals have emerged as one of the most important business decisions for firms that want to improve firm performance and add firm value. Today IT outsourcing has become a very common way of allocating or reallocating business resources from an internal source to an external source

5.3 Conclusion

Based on the findings, the study concluded that IT outsourcing, system outsourcing, and business process outsourcing have a positive and a significant effect on operational performance of banks. Applications outsourcing has a positive but insignificant effect on operational performance of banks.

The study concluded that outsourcing is a critical element of organizational strategy, as a powerful vehicle to reduce costs and improve performance. There is no doubt that the rapid change will affect today's business world, in other words it will revolutionize the traditional business and job paradigms. This volatile and changing atmosphere compels commercial banks to adapt their structures and strategies to a greater degree than they used to do. Nowadays, organizations trend to become small core big network forms. Thus, companies choose a limited number of tasks to do and entrust the rest of their tasks to an outside supplier. Therefore, the significance of outsourcing and its key role in illustrating network center organizations is clear.

5.4 Recommendations

Based on the findings and conclusion above, the commercial Banks need to gain ability to meet increasing needs through reducing costs and increasing flexibility in delivering services and outsourcing is one of the important ways to reach these goals.

A firm should consider its customer needs when executing outsourcing practices in order to meet their expectations; this cannot be achieved without top management support. The management should allocate resources necessary for management practices through employee training and managing of relationships with its partners and customers. Communication is an essential component in operations management practices process since it ensures an effective response to customers' service problems to meet the needs of the customers

5.5 Areas for Further Study

This study investigated outsourcing practices and operational performance of commercial banks in Kenya. Thus the same study can be conducted but in different industry for instance in SMEs. This will be used for comparison purposes.

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APPENDIX I: QUESTIONNAIRE

General Information

In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as honestly and objectively as possible.

SECTION A. (Demographic Information)

Tick the following questions where it's appropriate

1. Which management level do you fall under?

Top [ ] Middle [ ] Low [ ]

2. Age of the respondents

Less than 29 Years [ ] 30 – 39 Years [ ]

40 – 49 Years [ ] 50 and over [ ]

3. Number of years worked in the banking industry

Less than a year [ ]

1 – 5 years [ ]

6 - 10 years [ ]

11 and Over [ ]

4. Highest level of Education

Diploma [ ]

Degree [ ]

Masters [ ]

PHD [ ]

Others (specify) ……………………………………………………………………

SECTION B

5. Indicate to what extent your Commercial bank implemented the following IT outsourced Practices. Using a five point scale below, please tick appropriately against each statement. The scale stand for the following: 1 = Very Small Extent; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Information Technology Outsourcing Practices	**1**	**2**	**3**	**4**	**5**
The bank has a contractual delegation of IT services to an external vendor					
The bank has a contractual agreement on the provision of technical resources required in the IT department.					
The bank has contracted out the management responsibility of its iT services					
The bank has delegated the expertise and human resources in the iT department.					
The bank has outsourced the operations of the IT resources and services to an external vendor.					
The bank has always outsourced the operations of systems development to an external vendor.					
The bank has always outsourced the business processes in the Information Technology department.					
The bank manages their IT infrastructure through their in-house information systems organizations					

b) Are there any Information Technology practices that the bank prefers to manage their IT functionalities through their in house IS organization rather than outsource?

Yes [ ] No [ ]

c) If yes, please explain………………………………………………………………………
……………………………………………………..……………………………………
………………………………………………………………………………………………

7. Indicate to what extent your Commercial bank has implemented the following systems outsourcing practices. Using a five point scale below, please tick appropriately against each statement. The scale stand for the following: 1 = Very Small Extent; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Systems Outsourcing	**1**	**2**	**3**	**4**	**5**
The bank has extended its systems outsourcing strategy to acquisition and maintenance of operating systems					
The bank has extended its systems outsourcing strategy to manage internet banking.					
The bank has extended its systems outsourcing strategy to desktop management services					
The bank has extended its systems outsourcing strategy to secure data center management services.					
The bank has extended its systems outsourcing strategy to network management					
The external vendor where systems are outsourced is accountable for forecasting customer demands for example in the banking halls and ATMs.					
The external vendor where systems are outsourced is accountable for order processing.					
The external vendor where systems are outsourced is accountable for transit time management.					

The bank has extended its systems outsourcing strategy to disaster recovery.					
The bank has extended its systems outsourcing strategy to facilitate mobile banking.					
The bank has outsourced systems and personnel to manage the call centers.					

8. Indicate to what extent your Commercial bank has implemented the following applications outsourcing practices. Using a five point scale below, please tick appropriately against each statement. The scale stand for the following: 1 = Very Small Extent; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Applications Outsourcing	**1**	**2**	**3**	**4**	**5**
The bank has embraced the use of mobile banking applications for clients to manage their accounts.					
The bank has outsourced the development and maintenance of banking applications to an external vendor.					
The bank has embraced the use of Voice over IP applications to enhance communication with the bank’s branches.					
The bank has embraced the use of instant messaging applications to enhance communication with the bank’s branches.					
The bank has embraced the use of issue tracking applications to enhance transactions security.					
The bank has embraced the use of schedule assessment applications for better time management.					

9. Indicate to what extent your Commercial bank has implemented the following business process outsourcing. Using a five point scale below, please tick appropriately against each statement. The scale stand for the following: 1 = Very Small Extent; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Business process Outsourcing	**1**	**2**	**3**	**4**	**5**
The bank has outsourced some procurement procedures					
The bank has outsourced the call centre services					
The bank has outsourced the human resource services					
The bank has outsourced the back office operations					
The bank has embraced finance and accounting outsourcing (FAO) services,					

10. To what extent do these listed factors contribute to adoption of outsourcing services in your commercial bank? Use a scale of 1 to 5; where 5 is Very High, 4 is High, 3 is Average, 2 is Low and 1 is Very Low.

Reasons for of Outsourcing	1	2	3	4	5
The bank incurs increased operation costs for day to day transactions					
The bank is limited in skilled and experienced expertise.					
The bank prefers to focus on core banking activities					

The bank has experienced reduced profit margins over the past 5 years.					
The bank lacks internal resources and relevant technology to remain competitive.					
The bank has experienced increased complaints from dissatisfied clients due to inefficiency over the last 5 years.					

11. Organizational performance

Do you think outsourcing practices have generally influenced the performance of your commercial bank?

Yes [ ] No [ ]

b) If yes, please explain……………………………………………………………………
…………………………………………………..………………………………………
………………………………………………………………………………………………

12. Indicate to what extent each of the following statements is in relation to outsourcing and the profitability of commercial banks in Kenya on a five point Likert scale where, 1 = Very Small Extent; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Impact of Outsourcing on Business Performance	**1**	**2**	**3**	**4**	**5**
Outsourcing has let to improved quality of services					
Outsourcing has lowered innovation costs and risks					
Outsourcing has improved the bank's logistic planning					

and management					
Outsourcing has improved the bank's operational efficiency					
Outsourcing has increased the profitability and productivity					
Outsourcing has led to increased efficiency and competitiveness					
Outsourcing has increased the bank's capacity					
Outsourcing has increased in rate of repeat business from customers					

Thank you for your time and cooperation!

APPENDIX 2

Appendix II: Commercial Banks in Kenya

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. Chase Bank (Kenya)
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Credit Bank
12. Development Bank of Kenya
13. Diamond Trust Bank
14. Dubai Bank Kenya
15. Ecobank
16. Equatorial Commercial Bank
17. Equity Bank
18. Family Bank
19. Fidelity Commercial Bank Limited
20. Fina Bank
21. First Community Bank
22. Giro Commercial Bank
23. Guardian Bank

24. Gulf African Bank
25. Habib Bank
26. Habib Bank AG Zurich
27. I&M Bank
28. Imperial Bank Kenya
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. K-Rep Bank
32. Middle East Bank Kenya
33. National Bank of Kenya
34. NIC Bank
35. Oriental Commercial Bank
36. Paramount Universal Bank
37. Prime Bank (Kenya)
38. CFC Stanbic Bank
39. Standard Chartered Bank
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank
43. Charterhouse Bank Ltd

MORTGAGE FINANCE COMPANIES

44. Housing Finance Ltd.

Source: Central bank of Kenya Website: http://www.centralbank.go.ke

APPENDIX 3

APPENDIX III: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 01/OCT/2015

TO WHOM IT MAY CONCERN

The bearer of this letter EDWARD ACHOLA OKUDO

Registration No. D61/79689/2012

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

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

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
01 OCT 2015
P.O. Box 30197 – 00100, NAIROBI