

FACTORS INFLUENCING THE ADOPTION OF SERVICE OUTSOURCING AMONG COMMERCIAL BANKS IN WESTERN KENYA

Sarah Abijoune Ayienda

Msc Student, Jomo Kenyatta University of Agriculture and Technology, Kenya

Willy Muturi 

Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

wmuturi@ihrd.jkuat.ac.ke

Abstract

Intense competitive pressures have forced commercial banks to re-examine their approach to managing their procurement strategies, with a focus on core competencies, where much of the traditional in-house development activities have been pushed to suppliers. Purchasing is increasingly regarded as a strategic weapon, centered on its ability to create collaborative relationships for firm advantage. The purpose of this study was to assess factors influencing the service outsourcing among commercial banks in Western Kenya. This study adopted a descriptive survey design. The target population was 65 respondents from commercial banks operating in Western Kenya. The study sample size was 50 respondents selected using purposive sampling techniques. Primary data was collected using a questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics. The findings revealed that quality of service influences service outsourcing by commercial banks in Western Kenya. From the research findings, majority of the respondents agreed that quality influence service outsourcing among commercial banks in western Kenya region.

Keywords: Service; Outsourcing; Commercial Banks; Western Kenya

INTRODUCTION

As the operating environment becomes increasingly complex, faster and faster advancement of technology, with the consequent changes in the conditions in which any given enterprise functions, necessitate the search for more and newer methods which keep one ahead of one's competitor. In the past the key to success was bulk, today the importance of high quality is growing. As the managerial paradigm shifts high-volume to high-value, companies are being forced to identify exactly where they have the greatest competitive advantage, and to redefine their organizational structures to maximize that advantage (Koszewska,2004). An increasingly common way for organisations to try and increase their flexibility and generate high value is through outsourcing. This situation requires precise identification of the line of business one wishes to follow (ensuring a competitive advantage) and a careful analysis of its weak and strong points. One important result of this process is a recognition and reassessment of those activities which are not core in particular, whether these non-core activities should be carried out by the organisation itself (make) or outsourced to a specialist third party (Koszewska,2004)

Outsourcing originated in the USA, the cradle of management innovations, from where its more advanced forms came to Poland, which has been showing dynamic expansion since the 1990s. From year to year, this solution has become more and more common, and is increasingly recognized by the management of enterprises in all sectors of the economy. Its popularity results from the growing awareness of Polish entrepreneurs, who as international businessmen seek methods allowing them to conduct their business effectively.

According to the Outsourcing Institute, on average, companies can save 9% of production costs and increase the capacity and quality by 15% through global outsourcing (Elmuti & Kathawala, 2000). Multinational Corporations (MNCs) used to go for internationalization of their production in low cost countries in order to achieve the competitive advantages in their own business field. The comparative advantages of different countries and companies' intention to maintain increased focus on their core businesses drive them to go offshore for sourcing their needs. In third world, the countries especially in Asia are getting more focus on MNCs to get access to low production cost and internationalization of complete production chain has contributed to rapid growth in trade, both among the countries in Asia and Asian trade with the rest of the world by uses of the constant and ongoing outsourcing strategies. Higher economic growth; cheap labor cost, open market and declining attractiveness of Western Europe are causes to becoming most attractive region to trade with. (Enarsson, L., 2008).Being a developing country in third world, Bangladesh has become an increasingly promising choice due to source of various comparative advantages especially to international

fashion retailer, for outsourcing Cheap labor force, better quality, favorable government policies and entrepreneurial skills are mentionable advantage

Statement of the Problem

Commercial banks in Kenya have experienced very stiff competition from both local and multinational banks. This has necessitated the adoption of various strategies such as outsourcing to increase their efficiency and remain competitive. There are a number of studies that have focused on outsourcing Suraju and Hamed (2013) outsourcing services is recognized as strategic tool for organizational performance; the more an organization outsourced, the higher its organizational growth and productivity. Fan (2000) show that peripheral activities are the most outsourced with cost reduction being the main driver. Waweru & Kalani (2009) on Commercial Banking Crises in Kenya established non-core functions are the most outsourced, to enable them focus on core activities of the bank, it is not clear on the criteria established by banks to determine services as core and non-core, therefore influencing the service outsourcing among commercial banks in Western Kenya.

General Objective

To assess/ evaluate factors influencing the adoption of service outsourcing among commercial banks in Western Kenya.

Specific Objectives

1. To establish the extent to which reliability as a factor do influence outsourcing among commercial banks in Western Kenya.
2. To find out how quality of service as a factor do influence outsourcing among commercial banks in Western Kenya.
3. To establish the extent to which cost as a factor do influence outsourcing among commercial banks in Western Kenya.

CRITIQUE OF EXISTING LITERATURE RELEVANT TO THE STUDY

The banking industry is a large global market that touches almost every person in one way or the other both in the private and business context; it is also an industry undergoing rapid changes driven by globalization of markets, technological. In response to this pressure the players in the industry are rapidly consolidating and even creating large organizations. There are several functions that can be outsourced by an organization. The main determinant of the activity to outsource is whether the activity is strategic or not strategic to the organization.

Organization may outsource activities that are not core to the business and retain the ones that are core to the organization. One of such activities that can be outsourced is the human resource function in an organization. Firms can outsource the transactional human resource activities so that they may have more time to focus on the strategic aspect of human resource management. This implies that most firms may not opt to outsource all the activities in the human resource function but rather engage in partial outsourcing where some activities are outsourced whereas those strategic ones are left for the organization to handle (CIPD, 2009). The extent to which an activity is outsourced largely depends on the size of the organization. Smaller organizations are more likely to engage in full outsourcing than larger organizations. Recruitment, selection, and training may be fully outsourced thus leaving the firm with more strategic issues to handle (CIPD, 2009)

RESEARCH METHODOLOGY

Research Design

The study will adopt a survey research design. This research design was applied so as to collect data from a cross-section of commercial banks factors that influence the adoption of service outsourcing commercial banks in Western Kenya Region. The design was selected because it was appropriate in collecting information from the entire spectrum of the population, (Kothari 2004). Specifically this study will utilize a census approach as all the selected commercial banks in the Rift Valley Region will be surveyed. Census surveys were found to be most accurate in making comparisons and generalizations (Bryman and Bell, 2007).

Target Population

The target population was 65 respondents who were Branch managers and operations managers and branch custodians of the selected commercial banks in Western Kenya. The population of interest for this study was commercial Banks operating in Western Kenya, currently there are over 15 banks operating in Western Kenya. The study involve collection of data from the 5 selected commercial banks with a population of 65 employees which included Co-operative bank, Equity bank, Barclays Bank of Kenya, Kenya Commercial bank and Standard chartered Bank in Western Kenya. According to Ngechu (2004), a population is a well-defined or set of people, services, elements and events, group of things or households that are being investigated.

Sample Design

Mugenda and Mugenda (2003) expressed that at least 10% of target population is enough and representative for sample size in a study, the 50 respondents in the sample size formed 76.9% which is more than the suggested sample size by Mugenda (2003).

Data Collection

The self-made questionnaire was used to collect data from the field. The primary data was collected from Branch Managers and Operations Managers of the selected 5 commercial banks in Western Kenya. The data was collected by the use of a standard questionnaire, administered by 'drop and pick' method.

The questionnaires are appropriate because the responses are gathered in a standardized way, so making the data collected more objective, it is relatively quick to collect information using a questionnaire, potential information can be collected from a large portion of a group even though as returns from questionnaires are usually low. However, return rates can be dramatically improved if the questionnaire is delivered and responded to in class time.

ANALYSIS

The collected data was analyzed by the use of descriptive statistics, which involves the use of frequency, means and percentages. Descriptive statistics such as frequency distribution was used to examine the pattern of response to each of the variables under description. Percentages, frequencies used to facilitate comparison. The questionnaire was in the form of Likert Scale where respondents were required to indicate their views on a scale of 1-5, (Kothari 2004). The questionnaire contained 4 sections: Section A contained demographic information of the respondent; Section B data on the extent in which quality influence service outsourcing by commercial banks in Western Kenya; Section C data on the extent in which quality influence service outsourcing by commercial banks in Western Kenya; Section D data on the extent in which cost influence service outsourcing by commercial banks in Western Kenya. Charts were used in presenting data findings.

Reliability of Supply

The study sought to determine the extent of which reliability influence service outsourcing among the selected commercial banks in Western Kenya. From the research findings, majority of the respondents as shown by 96% agree, whereas 4% of the respondents disagree as shown in table 2. This implies that only a few respondents disagree with the extent in which reliability influence service outsourcing among commercial banks in Western Kenya Region.

Extent in Which Reliability of Supply Influence Service Outsourcing

The study sought to establish the extent in which reliability influence service outsourcing by commercial banks in Western Kenya. From the research findings majority of the respondents agreed that; service outsourcing has great potential for banks in terms of reliability of supply thus achieving its major objectives and with enhanced efficiency in business operations.

Table 1: Extent in Which Reliability of Supply Influence Service Outsourcing

Extent	Frequency	Percentage (%)
Very great extent	27	54
Great extent	13	26
Moderate extent	9	18
Little extent	0	0
No extent	2	4
	50	100

Table 2: Influence of Reliability of Supply in Service Outsourcing Among Commercial Banks in Western Kenya

Statements					
	Strongly agree	Agree	Not certain	Disagree	Strongly disagree
Improved confidentiality	14%	6%	2%	0	2%
Increased accuracy	10%	4%	0	2%	0
Increased honesty	12%	6%	2%	0	2%
Improved core competence	16%	2%	0	2%	0
Enhance efficiency in business operation	10%	4%	2%	2%	0
Total	62%	22%	6%	6%	4%

The study sought to establish the level of agreement with the above statements relating to reliability influence in service outsourcing by commercial banks in Western Kenya. From the research findings, 62% of the respondents strongly agreed, 22% agreed, 6% were not certain, 6% disagreed and 4% strongly disagreed on how service outsourcing influence confidentiality, accuracy, honesty, core competence and efficiency in business operation by commercial banks in western Kenya Region.

Quality of service provision

The study sought to determine how quality of service influences service outsourcing by commercial banks in Western Kenya. From the research findings, majority of the respondents

agreed that quality influence service outsourcing among commercial banks in western Kenya region, whereas a few of the respondents were of the contrary opinion.

Table 1: Extent to which quality of service provision influence service outsourcing.

Extent	Frequency	Percentage
Very great extent	35	70%
Great extent	7	14%
Moderate extent	5	10%
Little extent	3	6%
No extent	0	0%
	50	100%

The study sought to determine the extent to which quality influences service outsourcing among commercial banks in Western Kenya. From the research findings, majority of the respondent as shown by 70%% were of the opinion that, quality influences service outsourcing by commercial banks in Western Kenya Region to a great extent, 14% of the respondents indicated to a great extent, 10%% of the respondents indicated to moderate extent whereas 6% of the respondents indicated to a little extent. This implies that quality influence service outsourcing among commercial banks in Western Kenya, as evident in table 3.

Influence of quality of service provision in service outsourcing by commercial banks in Western Kenya Region

The study sought to determine how quality of service influences outsourcing among commercial banks in Western Kenya. From the research findings, majority of the respondent as shown by 70%% were of the opinion that, by outsourcing excellent services were being, 21% of the respondents indicated fair service, whereas 9% of the respondents indicated poor service by commercial banks in Western Kenya Region. This implies that quality of service influence outsourcing among commercial banks in Western Kenya, as evident in table 5.

Table 5: How quality of service provision influence service outsourcing by commercial banks in Western Kenya Region.

Functions	Excellent service	Fair service	Poor service
Cash management service	62%	26%	12%
Recruitment service	58%	36%	6%
Security service	70%	14%	16%
Transport service	86%	10	4%
Custodial services	76%	18%	6%
Training of employee service	72%	18%	10%
Information technology application	46%	34	20%
Advertising and Marketing services	74%	22%	4%
ATM management services	86%	10%	4%
TOTAL	70%	21%	9%

CONCLUSION

Commercial banks in Kenya outsource a number of functions such as security services, transportation services, Automated Teller Machine management services, training of employees and recruitment services. Some functions are core to the banks and are not outsourced and they include facility appraisal and account opening. Some functions are fully outsourced such as security services, Automated Teller Machine (ATM) management services as well as advertising and marketing. Functions that are partially outsourced cash management; custodial services; training of employees; transportation services; custodial services; information technology applications and recruitment services.

The study established that there are a number of services that are out sourced by commercial banks in Kenya. One of the functions that are commonly outsourced is security services. The findings reveal that most commercial banks seek for security services from external providers. It was further clear that commercial banks in Western Kenya region also outsource transportation services from third parties. The results also confirmed that the commercial banks in Kenya outsource Automated Teller Machine management services largely. It was evident that most of the banks do not manage their own Automated Teller Machines but rather engage other firms to provide the service. Training of employees is a function that was also found to be commonly out sourced by commercial banks in Kenya. Another function that is

also commonly outsourced is recruitment services commercial banks were found to contract recruitment firms to handle for them some recruitment activities

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