FACTORS INFLUENCING THE LEVEL OF OUTSOURCING OF NON-CORE SERVICES AS A COST REDUCTION STRATEGY IN PUBLIC UNIVERSITIES IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS AND ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY.
DECLARATION

This research project is my original work and has not been presented in any other university for examination or any other award.

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ABSTRACT

Outsourcing of non-core service areas reduces operating costs. Public universities in Kenya continue to experience declining government funding amidst increasing student population and, yet they have not embraced non-core service outsourcing. The aim of this study was to examine the factors influencing the level of outsourcing as a cost reduction strategy adopted by public universities in Kenya. The objectives of the study were: to determine the factors that influence the level of outsourcing of non-core services in public universities in Kenya; to assess how these factors have affected outsourcing of non-core services in public universities in Kenya; to assess the role of outsourcing as a cost reduction strategy in the provision of non-core services in public universities in Kenya; and to propose ways of enhancing outsourcing as a cost-reduction strategy in the provision of non-core services in public universities in Kenya. This study was a case study of four public universities in Kenya namely Kenyatta, Moi, Maseno and Masinde Muliro. The study population comprised all the top management staff, directors/managers of non-core departments and Deans of students in all the campuses of all the seven public universities in Kenya. The researcher sampled 30 respondents from the four mentioned universities. Data for the study was collected from the sample population using open-and closed-ended questionnaires delivered and collected by the researcher in person. The researcher screened the collected data for omissions and inaccuracies and sought clarifications where possible. The data was then grouped and categorised for ease of analysis and interpretation. Percentages, ranges, and frequency distributions were determined manually and data interpretation done by use of tables, graphs and prose discussions. The study findings showed that public universities in Kenya acknowledged the cost reduction benefit of outsourcing of non-core services.
DEDICATION

To my husband, our children and parents.
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DEFINITIONS OF OPERATIONAL TERMS

Competitive advantage – Financial, human resource, marketing, locational, or any other advantage that an organisation has over its competitors.

Core services/activities – They are services/activities that are key, critical or fundamental and form the purpose for which an organisation exists.

Costs – All expenses incurred by an organisation in providing services to its customers.

Influencing – having an effect on or determining

Level – the extent or scale to which an activity has reached.

Market universities – Public universities which are self-sustaining/do not depend on the government for funds.

Non-core services/activities – They are services/activities which support the core services/activities of an organisation.

Outsourcing - The delegation of non-core operations from internal production to an external entity specializing in the management of that operation.

Services – Intangible means of satisfying one’s needs and wants.

Strategy – Determination of basic long-term organisational goals and objectives and the adoption of courses of action and allocation of resources necessary for the achievement of the goals.

Support services – Non-core services of public universities.
I would like to thank the following people for their support in the accomplishment of this research project. Many thanks go to my supervisor, Mr. Ndede for his able guidance that shaped this project. A lot of appreciation goes to all the staff of the public universities studied who responded to the study questionnaires. Without your input, this project would not have been done. I will forever be grateful to my husband for his huge financial and emotional support. Your love and generosity renewed my energies each day. I am hugely indebted to our children for their patience and understanding when I was not with them because of this project. And to all who assisted me in one way or another, I say thank you very much. May God bless and guide you in all your life endeavours.
CHAPTER ONE
INTRODUCTION

1.1 Background Information

Over the years, outsourcing has been considered one of the strongest and most sustained trends within business (Hendry, 1995). Initially, it focused on support services like catering and cleaning, but rapidly developed to cover central service functions such as personnel, accounting and information systems (Hendry, 1995). Activities/services outsourced are those not in the areas for which the organisation was established, that is, the non-core services.

Other than several emerging explanations as to why organisations decide to outsource their non-core operations, cost reduction appears to be the original motivator. Goltschalk et al (2006) noted “the motivations for outsourcing are evolving from a primary focus on cost reduction to an emerging emphasis on improving business performance”. Outsourcing as a cost reduction strategy is based on the rationale of realising vendors’ economies of scale and specialisation. Since vendors perform similar operations for several clients, their sheer volume of output provide them with many advantages to reduce costs which include, among others, more efficient utilisation of their facilities and exploitation of quantity discounts in procurement.
Although outsourcing is not without its shortcomings such as hidden costs and loss of control over day-to-day operations of outsourced business units, the bulk of available research findings consistently confirm that outsourcing brings substantial savings to an organisation. Citing various research studies, Bryce & Useem (1998), concluded that outsourcing benefits the organisation in terms of cost reduction by even up to 40%, realisation of savings objectives, and improvement in labour productivity. Bryce & Useem (1998) further observed that studies of savings in the public sector organizations have yielded similar conclusions. A study of Australian public agencies, for example, revealed that outsourcing enabled the government agencies to achieve a cost savings of about 20 per cent (Kakabadse, A 2001).

1.1.1 Need for cost reduction in Kenyan public universities

Until early 1990s when the Government of Kenya introduced the cost-sharing policy in education, health and other social sectors, public universities in Kenya fully depended on government funding to finance their academic and other operations (GoK, 1988b). The implication of the cost-sharing policy was that financing of university education was to be shared between the students (their parents or guardians) and the government. However, since the introduction of the policy and other
structural adjustment programmes outlined by Kenya’s donor community, the exchequer allocation to public universities has not been commensurate with the year-by-year increase in student enrolment.

In its 1999 biennial report, Moi University noted that the university “...like other public universities in Kenya, is faced with the challenge of coping with reduced government funding”. This decline in government funding to public universities coupled with the demand for higher education, which is expected to increase even further due to the introduction of free primary education, presented a good basis for public universities to change their management styles. It became necessary for public universities to implement strategies for revenue generation (as well as for cost reduction) from private sources in order to supplement government funding (Muiruri, 1996). Public universities in Kenya responded to the changes through staff retrenchments and the introduction of the Privately Sponsored Students Programme (PSSP) or Module II Programme. The staff retrenchment exercise helped to cut down on operating costs while PSSP has increasingly become the most significant income generating activity for the universities. Marcucci et al (2006), noted that in 1998/99 academic year, the module II programme at the University of Nairobi generated about four percent of its total income and by 2002/03 academic year, this had grown to one-third. On the other hand, the authors pointed that government funding dropped
from 70 percent of the university’s income in 1995/96 to 49 percent in 2002/03 academic year.

While the objective of extra income generation has been fairly addressed by the PSSP or Module II programmes, cost reduction still remained a challenge in public universities. One of the issues that needed to be addressed was how to effectively manage non-core services such as security, accommodation, catering, transport and cleaning services. In its ten-year strategic plan, Moi University (2005) rightly noted that most of these non-core activities have a high staff complement and expanding them to perform to the satisfaction of the students and staff had become a big challenge particularly with inadequate exchequer funding of the universities.

Although public universities in Kenya are not profit-oriented and do not depend entirely on students' fees for their income, they nevertheless encounter basic management problems similar to those faced by commercial enterprises. Public universities are affected by socio-economic and technological changes and they compete for private sponsorship among themselves and with other institutions of higher learning. They are not monopolies and, therefore, have to find cost-efficient ways of satisfying their customers just like their counterparts in commercial businesses. Despite the empirical evidence of cost benefits of
non-core service outsourcing and the declining government financial support, facts on the ground indicated that public universities in Kenya hardly outsource their non-core functions such as accommodation, catering, transport and garage, security, cleaning and grounds keeping, accounting, auditing, personnel, and information systems management. It was in this light that this study sought to establish factors influencing the level of outsourcing of non-core services in Kenyan public universities.

1.2 Statement of the problem

Outsourcing of non-core services has increasingly become a popular option for cost-reduction in organisations. The available research findings showed that when well designed and managed, outsourcing increased productivity and reduced operating costs by an average of 15% (Bryce & Useem, 1998). Walt et al (2003) noted that outsourcing is one of the methods that could be used by “state-subsidised public universities” to transform themselves into “market universities”. They pointed out that universities’ main focus in adopting outsourcing is to cut costs of ‘noncore’ support services. According to the study, cost-efficiency means, among other things, the elimination of peripheral activities. Vedder (2005) observed that universities often consider outsourcing functions for which they do not have the expertise or mission-focus to perform by
themselves. The study noted that Lehigh University, New York, has outsourced its food service operations for fifty three years and since that time, the university has expanded its outsourcing to include, at various times, such operations as grounds keeping and bookstore management.

Public universities in Kenya, on the other hand, have continued to put resources in these non-core service areas. This continues to make the universities incur high costs which prohibit them from channelling such resources to core areas like research. The available literature does not show why this is so. Muiruri (1996), however, attributed the lack of use of strategic management techniques, which include outsourcing, by public universities in Kenya to the rapid growth in demand for university places and the funding from the government. This study was intended to fill this gap by finding out the factors that influence the level outsourcing of non-core services as a means to reducing the costs of operation in public universities in Kenya.

1.3 Objectives of the study

The general objective of this study was to examine the factors influencing the level of outsourcing of non-core services as a cost reduction strategy in public universities in Kenya. The specific objectives of the study included:
1) To determine the factors that influence the level of outsourcing of non-core services in public universities in Kenya;

2) To assess how these factors have affected outsourcing of non-core services in public universities in Kenya;

3) To assess the role of outsourcing as a cost reduction strategy in the provision of non-core services in public universities in Kenya;

4) To propose ways of enhancing outsourcing as a cost-reduction strategy in the provision of non-core services in public universities in Kenya.

1.4 Research questions

This study was guided by the following research questions:

1) What factors influence the level of outsourcing of non-core services in public universities in Kenya?

2) How have these factors affected outsourcing of non-core services in public universities in Kenya?

3) Does outsourcing contribute to cost reduction in the provision of non-core services in Kenya’s public universities?

4) What measures can be undertaken to enhance adoption and/or use of outsourcing as a cost-reduction strategy in the provision of non-core services in public universities in Kenya?
1.5 Significance of the study

1) The government – The research findings are expected to form vital information to be used in formulating government policies relating to the management of public universities.

2) Learning institutions - The findings of this research are likely to provide information on the suitability and effective management of outsourcing of non-core services in public universities and other learning institutions. This could help the institutions to reduce costs of providing non-core services and in enabling management to concentrate their efforts on the provision of core services.

3) Future researchers - The study findings are also likely to be an important addition to existing knowledge on outsourcing in Kenya. It is hoped that it will make a reference material that will stimulate further research in strategic financial management.

4) Business/management students – The study findings are likely to provide empirical support to existing theoretical knowledge on outsourcing. This will help students to better understand the subject

5) Business persons - Business persons are likely to find the findings of the study to be of great use in planning how to attract and maintain outsourcing businesses.
1.6 Scope of the study

The study covered four out of the seven public universities in Kenya. These were Kenyatta, Moi, Maseno and Masinde Muliro universities. The selection of the sample universities was based on two factors: the geographical location of the universities believed to influence availability of outsourcing vendors and the length of time the universities have been in operation which is believed to have an effect on the choice of management techniques applied.

The study centred on outsourcing of support services only. Outsourcing of functional areas like accounting, internal auditing, personnel management, and purchasing and supplies among others were excluded in the study. Available literature on the evolution of outsourcing showed that the practice was first applied by manufacturing and other organisations on less critical activities such as cleaning, repair and maintenance work (Hendry, 1995). The researcher therefore believed that a decision to or not to outsource support services is the basic starting point to determining public universities’ perception of outsourcing as a cost-reduction strategy.
1.7 Limitations of the study

Due to time and financial constraints, the researcher was not able to examine in detail the management of non-core services in all the public universities in Kenya. The geographical dispersion of the universities meant that outsourcing decisions were influenced by varying environmental, social and cultural issues. The organisational norms or "the way of doing things" in each of the universities studied varies. This made the generalisation of the study findings rather difficult.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature reviewed by the researcher to establish the framework upon which this study was based. The chapter begins with a brief account on the evolution and rationale of outsourcing. Types of outsourcing arrangements, activities generally outsourced and factors influencing outsourcing decisions form the empirical literature in this chapter. Criticisms and challenges of outsourcing and gaps in reviewed literature are also discussed under critical analysis section in this chapter. The chapter ends with the conceptual framework for the study.

2.2 Theoretical Literature

2.2.1 Evolution of outsourcing

The wikipedia encyclopedia defined outsourcing as the delegation of non-core operations from internal production to an external entity specialising in the management of that operation. It involves transferring or sharing management control and/or decision-making of a business function to an outside supplier. This, therefore, involves a degree of two-way information exchange, coordination and trust between the outsourcer and its client. According to the Gelgroup inc. (2006),
outsourcing occurs when a company purchases products or services from an outside supplier, rather than manufacturing the same products or providing the services within its own facilities.

According to Nam et al (1996), outsourcing existed for many years in one form or another with the term being explicitly used only in later years. The term “outsourcing” was coined in the late 1980s in the field of information systems to refer to the act of subcontracting information systems. For sometime, the term was considered a function of information systems, but it gradually became applicable in other disciplines (Tomas et al, 2004). Perhaps the most notable landmark in outsourcing history was the Eastman Kodak–IBM partnership reported in 1989 (Nam et al, 1996). At about the same time, Japanese car producers were applying outsourcing to a much higher extent than their American rivals (Shy et al, 2003). The developments in Europe during the 1990s towards a deregulated market gave an impetus to outsourcing to be used in other aspects of business other than information systems (Brandes et al, 1997). According to the author, the developments brought changes to the role of purchasing function in manufacturing organisations. Outsourcing was one of the changes, others being lean production and systems strategies.
The growth in outsourcing is attributed to a general shift in business philosophy (Gelgroup inc., 2006). Prior to the mid-1980s, many companies sought to acquire other companies and diversify their business interests in order to reduce risk. However, as more companies discovered that there were limited advantages to running a large group of unrelated businesses, many began to divest subsidiaries and refocus their efforts on one or a few closely related areas of business. Companies tried to identify or develop a “core competence”, a unique combination of experience and expertise that would provide a source of competitive advantage in a given industry. In this rearrangement, all aspects of the company’s operations were aligned around the core competence, and any activities or functions that were not considered necessary to preserve the core competence were then outsourced. Lamminmaki (2003) observed that “organisations have evolved from a focus on a single activity, to vertically integrated businesses, to multidivisionalised businesses, and now many firms are returning to a narrower focus by outsourcing non-core activities”.

2.2.2 Rationale for outsourcing

Lamminmaki (2003) cited top ten reasons why organisations outsource as to improve company focus, to gain access to world-class capabilities, to accelerate the benefits of reengineering, to share risks, and to free
non-capital resources. Other reasons are to make capital funds available, to reduce operating costs, to obtain cash infusion, to obtain resources not available internally, and to eliminate a function that is difficult to manage. She concluded that perhaps the two major reasons to outsource are to maintain competitive advantage and to focus on core activities. According to Goltschalk & Solli-Saether (2006), arguments in favour of outsourcing can be broken down into five areas: concentration on core business, cost control, access to state-of-the-art technology, market discipline through greater transparency, and added flexibility to respond to demand changes.

It is rational for organisations to exploit competencies based on their resources, contract out activities in which they are less competent and benefit from vendors’ expertise (Beaumont, 2003). Outsourcing allows organisations to delegate non-vital projects to vendors. This eliminates distractions and forces managers to concentrate and remain focused on the organization’s distinctive competencies which will help to achieve a sustainable competitive advantage and other long term benefits (Gelgroup inc. 2006)

Maintaining competitive advantage is a function of maximising on the core competence, which could be a technological advancement, strong
alliance with suppliers, a well-known brand name, or anything that the organisation does better than its competitors. By focusing on what it does best, an organisation is able to form formidable barriers against competition. Lamminmaki (2003) noted that achieving this internally would be difficult to manage and, thus outsourcing of activities that their performance are not at par with those of competitors is essential.

2.3 Empirical Literature

2.3.1 Types of outsourcing arrangements

Outsourcing arrangements are of many types. To mention a few, outsourcing can be undertaken to varying degrees ranging from total outsourcing to selective outsourcing. In total outsourcing, the entire departments or divisions may be dismantled and employees, facilities, equipment, and complete responsibility for a product or function are transferred to an outside vendor. In contrast, selective outsourcing may target a single, time-consuming task within a department, such as preparing the payroll or manufacturing a minor component that can be handled more efficiently by an outside specialist (Gelgroup inc., 2006).

Depending on the location of the parties to an outsourcing decision, an outsourcing arrangement could be termed onshoring, offshoring, or
nearshoring (Halvey & Melby, 2005). Onshoring is an outsourcing arrangement where the outsourcing vendor is from the same country as the outsourcing company. Offshoring is where the vendor is from a far low-cost country different from the outsourcing company while nearshoring is where the vendor is from a low-cost country that is close to the outsourcing company’s borders. Offshoring and nearshoring take advantage of the differences in labour costs in different countries.

2.3.2 Activities provided through outsourcing arrangements

In outsourcing decisions, an organisation’s activities are generally classified into core and non-core activities. Quinn & Hilmer (1994) regard core activities as those activities that the organisation is continuously engaged in. They are the sets of skills and systems that a company does at “best-in-world” levels (better than anyone else) and through which a company creates uniquely high value for customers (Quinn, 1999). Lamminmaki (2003) noted that an organisation’s core competence comprises the things that the organisation is good at or has an edge on over its competitors. There is a general consensus that core competences should not be outsourced. An organisation may even build defensive rings of essential competencies that customers insist it should have or that protect its core operations (Dibbern et al, 2004).
Non-core activities are peripheral to an organisation’s competitive advantage and are often cost ineffective (Lamminmaki, 2003). Quinn (1999) noted that unless a company is “best-in-world” at an activity, that activity is someone else’s core competency, not its own, and the company gives up a competitive edge by performing a non-core activity in-house instead of buying the service from a ‘best-in-world’ source. In other words, an organisation should outsource the provision of that service. This explains why it is often suggested that core activities should be insourced while non-core activities should be outsourced.

2.3.3 Factors influencing outsourcing decisions

Determining which activities can be best performed by outside vendors requires a good understanding of an organisation’s direction and where its competitive advantage lies. There is no sure way on this because of the dynamism and unpredictability of markets and other business environmental variables. Uncertainties in the business environment make the future direction and needs of an organisation unclear. A firm needs to continually evaluate the activities it performs in-house with a view to outsourcing activities that suppliers can perform better (Ram & Jayanth, 1998). Although there is a general consensus that core activities should not be outsourced because an organisation risks loosing its reason for existence and may become ‘a hollow’ corporation, there is
no consensus as to what is a core and non-core activity. Accordingly, managers tend to be hesitant in contemplating outsourcing some of their organisation’s activities.

Availability of successful vendors is another factor determining the adoption of outsourcing decisions. Gottschalk & Solli-Saether (2006) outlined some hard and soft qualifications for successful outsourcing vendors. Hard qualifications are tangible and can be easily verified by due diligence. They refer to the ability of vendors to provide low-cost and state-of-the-art solutions. Also included in hard qualifications are business experience and financial strength. Soft qualifications are attitudinal. They may be non-verifiable and may change depending on circumstances. Important soft criteria include a good cultural fit, a commitment to continuous improvement, flexibility, and a commitment to develop long-term relationships.

Generally, employees view outsourcing as an underestimation of their skills. An organisation contemplating outsourcing faces two interrelated change issues concerning its human resource. First, key employees must be retained and motivated and secondly, the commitment of employees transferred to the vendor must be secured. Outsourcing a function may entail dismissal or redeployment of employees, changes in the work they do, or their transfer to the vendor’s location and its different employment
conditions (Beaumont et al, 2003). Without efficient management of change problems, a massive turnover (depending on the marketability of employees' skills) may result even before an actual outsourcing has been made (Gottschalk & Solli-Saether, 2006).

Fear of loss of control over an outsourced service influences outsourcing decisions. It is important for an outsourcing organisation not to lose control over an outsourced activity. It is critical to keep the outsourced activity in alignment with the overall organisation strategy. This requires strong co-ordination and assessment of vendor management skills by the outsourcing organisation. Consequently, the success of an outsourcing arrangement requires a strong management team on the part of the outsourcing organisation.

Outsourcing costs versus costs of internal provision of non-core services also play a major role in determining outsourcing decisions. Outsourcing costs are of two types. First are the search and contracting costs. These are the costs of gathering information to identify and assess suitable vendors and costs of negotiating and writing the outsourcing contract. Second are the vendor management costs which include costs of monitoring the outsourcing arrangement to ensure that vendors fulfil their contractual obligations, bargaining with vendors and sanctioning
them when they do not perform as per the contract, and negotiating changes to the contract where necessary. The vendor search and contracting costs are incurred only once in an outsourcing arrangement and once the arrangement picks up, it can be treated as sunk costs and thus will not be a factor in assessing the performance of the arrangement. On the other hand, despite being unpredictable, vendor management costs are to be incurred throughout the lifetime of the outsourcing arrangement. An underestimation of these costs is bound to make an outsourcing arrangement fail. Beaumont (2003) argued that the cost of coordination with an outside supplier may be greater than coordinating internal department's activities.

2.4 Critical Analysis

2.4.1 Criticisms and challenges of outsourcing

Critics of outsourcing argue that it compromises the security and confidentiality of an organisation's information as well as the quality of service provided. The loss of control over day-to-day operations of a business function is another concern that organisations have about outsourcing (Goltschalk & Soli-Saether, 2006). Also of concern is the reduction in personnel, redundancies and layoffs which usually generate internal fear and employee resistance as job security is jeopardized (Lam & Han, 2005). The existing organisational culture is also disturbed when
external outsourcing agent enters. Thus it will affect collaboration between the organisation and outsourcing agent when respective cultures are not compatible to achieving their objectives. Such cultural clashes are usually regarded as a factor contributing to the failure of outsourcing.

The above and other challenges of outsourcing are typical to any change within an organisation. Transferring a service originally provided within an organisation to an outside provider (or outsourcing) brings about change in an organisation, and therefore is a risk-prone decision just like other organisational decisions. However, research findings show that with careful analysis of suitable vendors, functions to be outsourced, and involvement of all stakeholders in the decision, the benefits to accrue from outsourcing much outweigh the risks (Biggs, 2000; Falgie, 2000; Gottschalk & Solli-Saether, 2006). As an organisation grows and business environmental factors change, the organisation will have to adapt to and move with the changes in order to survive in the market. Proponents of change even advise organisations to anticipate and be proactive rather than be reactive to change.

Outsourcing challenges can be addressed and minimised by organisations going about the outsourcing process in an informed and
deliberate fashion. Biggs (2000) counsels businesses to define exactly what business processes and/or functions make sense to maintain via a service relationship (outsourcing). According to the author, organisations should prioritize outsourcing projects based on the number of benefits they expect to gain from the arrangement. To minimise employee resistance, representatives from employee unions and managers of all affected areas should be party to the outsourcing decision so that they contribute in addressing employees’ fears concerning the decision. Employees need to be made aware that outsourcing can also improve their work morale. According to Grauman (2000), lack of internal expertise or dedication to non-core tasks in a business results in poor attitudes and ultimately poor performance which can lead to overlap and duplication of internal efforts; while an effectively designed and ongoing communication process emanating from one or more outsourcers can greatly reduce or eliminate these duplications.

To address the challenges of quality of service and security of vital information, the outsourcing contract should clearly define responsibilities and performance criteria and outline confidentiality rules and ownership rights to new ideas or technology. It should also include a means of terminating the relationship if any of the agreements is violated. Outsourcing improves accountability. Outsourcing arrangements create binding business contracts. Such contracts are
entered into with mutual understanding by both parties that such arrangements require quality service in exchange for payment (Gelgroup inc. 2006). Outsourcers are well aware that this accountability is both practical and legal, with fiscal implications. The same cannot be said for internally provided functions (Grauman, 2000).

2.4.2 Gaps in reviewed Literature

Literature reviewed by the researcher showed that most studies generally described the process, benefits, and limitations of outsourcing and were conducted in relation to production systems, information technology, and human resource management. Most of the researches also dwelt on the hotel industry. An internet literature search by this author for studies on outsourcing in Kenya revealed that very little has been published on this area, more so in relation to universities or other institutions of learning. The few studies found on the subject and in relation to public universities elsewhere in the world included Falgie (2000), Walt et al (2003), and Vedder (2005). Falgie (2000) reported on the day-by-day events that culminated in the final hand over of the university health centre to an outside partner. The report illustrated the mistake made by the university administration in sidelining the directors and employees of the health centre in their decisions, a mistake that the author believed led to the failure of the project.
Public universities in Kenya are being pulled in two directions – by the rising student enrolments and by the declining state support (Ngigi, 2004). They are caught between increasing demand for their services, rising per-student costs and flat or even declining governmental revenues (Marcucci et al, 2006). Little research has been done on ways of reducing non-core service costs in public universities in Kenya. This study therefore aimed to fill this gap in outsourcing literature by seeking answers as to why public universities in Kenya have not fully embrace outsourcing as a cost-reduction strategy in the provision of their non-core services. Quinn (1999) attributed the general continuance of organisations to perform uneconomic activities in-house to a variety of reasons including tradition, emotion, and incapacity or unwillingness to evaluate their internal transaction costs and risks objectively. In this study, the researcher aimed to establish if this is the case in Kenya’s public universities as well.

2.5 Conceptual framework

There are many concepts informing studies on outsourcing. Goltschalk & Solli-Saether (2006) discussed at length eleven schools of information technology outsourcing, each representing a particular theoretical orientation and a different form of organisational intervention on the
outsourcing arrangement. The authors noted that the schools are not mutually exclusive of one another and that sometimes two or more of concepts are observed in the same outsourcing arrangement. While some concepts indicate possibilities for outsourcing (concept of core competencies, resource-based concept, transaction cost concept, neoclassical economic concept, and concept of firm boundaries); others indicate limitations on outsourcing (contractual concept, partnership and alliance concept, relational exchange concept, social exchange concept, agency theory, and stakeholder theory). The researcher found the concepts indicating possibilities for outsourcing to be relevant to this study and, more specifically, the researcher felt that the following two interrelated concepts were more appropriate for the study: neoclassical economic concept and the concept of core competencies.

2.5.1 Neoclassical economic concept
Neoclassical economic concept posits that organisations outsource to attain cost advantages from assumed economies of scale and scope possessed by outsourcing vendors. According to the concept, companies will justify their outsourcing strategy based on an evaluation of possibilities for cost savings (Goltschalk & Solli-Saether, 2006). Thus, the question of whether to outsource is a question of whether outsourcing vendors can provide the services at a lower price than if the same services are provided internally. According to this concept, organisations,
public universities included, will provide their non-core services in-house if this has cost advantages, and will outsource only when the market place can offer cost savings.

2.5.2 The concept of core competencies

This concept falls under the strategic management techniques which explain the strategic activities of an organisation. The concept of core competencies states that organisational activities should be performed either in-house or through outsourcing. Activities which are not core competencies should be considered for outsourcing with ‘best-in world’ suppliers except those non-core activities which are part of a defensive posture to protect an organisation’s competitive advantage (Goltschalk & Solli-Saether, 2006). According to the authors, although there is no agreed upon definition of what is a core activity, it is generally believed that “core” equals key or critical or fundamental.

2.5.3 Turn-around strategy

In strategic management language, an organisation already providing its non-core services in-house and contemplating to outsource is said to be ‘turning-around’. According to Wheelen (2004), turnaround strategy emphasizes the improvement of operational efficiency and is appropriate when an organisation’s problems are pervasive but not yet critical. In
describing turnaround strategy, the author likened it to a weight reduction diet with two phases: contraction and consolidation. Contraction is the initial effort to quickly “stop the bleeding” with a general across-the-board cut back in size and costs. Consolidation, on the other hand, involves stabilizing the now-leaner organisation. Streamlining an organisation, according to the author, involves developing plans to reduce unnecessary overheads and to make functional activities cost-justified. With the unfavourable effects of cost-sharing, public universities in Kenya need to ‘turn-around’ their management practices and make every department, and especially non-core departments, to be cost-justified. Thus, turn around strategy forms the basis of this study.

2.5.4 Non-core service outsourcing

Non-core service outsourcing is a form of turnaround strategy. A well designed and managed outsourcing contract is a cut-back in size and costs and results in improvement in operational efficiency. From its inception, outsourcing was seen as a means to reducing costs. Halvey & Melby (2005) reported that in early 1990s, most companies engaged in a “build and maintain your own” strategy with respect to their information technology infrastructure but as a result of corporate cost-cutting and the ever increasing pace of technological innovation, information
technology managers began to accept and embrace outsourcing. (Fan, 2000) felt that the practice of outsourcing is becoming an increasingly popular option for many organisations throughout the world. With forces of competition and other challenges in the business environment, many companies understandably find the pressure to outsource irresistible with the idea that it might not be appropriate fast becoming almost inconceivable (Hendry, 1995). “The economies of scale that can be achieved by an outsourcing vendor ... have given outsourcing an almost populist following” (Halvey & Melby, 2005).

2.5.5 Outsourcing as a cost-reduction strategy

Outsourcing is generally considered a powerful tool to cut costs and improve performance (Gottschalk & Solli-Saether, 2006). It is viewed by many organizations as a strong business tactic that ultimately is a superior economical approach to developing products and services (Wikipedia, 2007). Cost-cutting and financial engineering have been significant factors in fuelling the outsourcing fire (Halvey & Melby, 2005). Many organisations embrace outsourcing as a way to realize cost savings or better cost control over the outsourced function. This cost saving was considered the main decisive factor in outsourcing, for example, blood transfusion service (Triulzi, 1997). Triulzi argued that cost-reduction was often the driving force especially in large hospitals where total savings
were in the range of 15 – 20% over in-house management of a blood bank. Outsourcing can produce an immediate cost reduction by decreasing the capital investment required to improve processes (Tomas et al, 2004).

Through outsourcing, organisations increase their ability to determine exact future costs. Prior to the development of any outsourcing agreement, the outsourcing company develops a request for proposal document which highlights the major requirements and scope of the project to be outsourced. Through bids, vendors have the ability to make offers to perform the outsourcing for the given project. When a bid has been accepted, the organization has an exact figure illustrating what the expense will be to outsource the project (Wikipedia, 2007). Beaumont (2003) reported that what Australian Information Technology managers wanted from outsourcing arrangements, almost as much as reduced costs, were predictable costs. The author reported that the managers preferred to pay an insurance premium by contracting to have a service provided at a fixed cost per transaction than to try to ascertain and control costs in their own departments.
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For small outsourcing organisations, cost savings is believed to be as a result of production costs advantages that outsourcing vendors possess. The activities carried out by outsourcing vendors represent their core competences and so they are more likely to provide the services at a lower cost than the client organisations could (Tomas et al, 2004). Specialist service providers can also afford to invest more in new technologies and innovative practices than can many user organisations. Analysts contend that an important source of cost savings is the outsourcing organisation’s access to economies of scale and the unique expertise that a large outsourcing vendor can deliver (Bryce & Useem, 1998). Organisations usually outsource to a vendor that specializes in a given function and performs that function more efficiently than the organisation could, simply by virtue of transaction volume (Gelgroup inc. 2006). Since outsourcing vendors typically service many clients, they often achieve lower unit costs than can any single organisation. In an Information Technology department, for example, a vendor can supply, run and update the software needed for a common application and distribute the development, maintenance and running costs over many clients (Beaumont, 2003). Commenting on this in a hospital environment, Triulzi (1997) observed that cost savings achieved through outsourcing resulted from assembling sufficient volume to achieve scale economies in both direct and indirect labour, reagents/materials, and indirect costs such as systems support; and the most significant of this was labour
costs, representing 40-50% of the observed savings. Labour productivity gains translated into reductions in the level of staffing required.

In the case of large organisations, the rationale of vendors’ economies of scale advantages is not convincing because they themselves (large organisations) are in a position to replicate production cost advantages through internal provision of the services which are candidates of outsourcing decisions (Gottschalk & Solli-Saether, 2006). However, large organisations may find that optimizing the provision of services that can be outsourced will conflict with optimization of core business activities. Outsourcing organisations have market structures, resource constraints and business processes unique to the attainment of their missions and have hired personnel and other resources to address the market conditions and customer demands of their industry. ‘Vendor value proposition’ explains why large organisations outsource some of their activities (Gottschalk & Solli-Saether, 2006). Vendor value proposition is based on the concept that firms can improve productivity by engaging in complementary activities where benefits from doing more of one activity increase if the firm is also doing more of another activity (Gottschalk & Solli-Saether, 2006). According to the authors, an organisation that invests simultaneously in several complementary activities performs better than one that increases the level of some of the activities but not others.
2.5.6 Outsourcing in public universities

Apart from the benefits of cost-reduction, outsourcing is important to public universities because of increased flexibility (Tomas et al, 2004). According to the author, flexibility refers to the ability to respond to changes and the degree of adaptability when facing changing circumstances such as emergence of new technologies with subsequent changes in customer tastes and preferences and degree of competition in the market. Outsourcing makes organizations more flexible, more dynamic, and better able to face the changes and opportunities that appear (Tomas et al, 2004). Outsourcing in public universities is important because low or irregular demand of non-core services cause the in-house supply of the services to be inefficient. Moreover, outsourcing is linked to a higher concentration on core activities.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the overall approach used in the study. The chapter discusses the study design and the rationale in choosing the location of the study, the research population, sampling procedures, and methods and instruments of data collection and analysis.

3.2 Study design

This study is a case study of four public universities in Kenya. The study sought to describe the level of outsourcing of non-core services in the universities using opinions of those entrusted with or participate in the decision making of the universities. Marczyk et al (2005) said that case studies involve an in-depth examination of a single person or few people and that the goal of a case study is to provide an accurate and complete description of the case.

Case studies reduce the scale of research by focusing on a smaller number of units than would otherwise be involved thus increasing the range of different units within the study (Bii, 2001). Marczyk et al (2005) added that although case studies lack experimental control, their
naturalistic and uncontrolled methods have set them aside as a unique and valuable source of information that compliments and informs theory, research and practice.

3.3 Location for the study

The study was carried out within the main campuses of Kenyatta, Moi, Maseno and Masinde Muliro universities. The researcher felt that the non-core services provided by the other campuses were a replica of those provided by the main campuses. Besides, the main campuses were the nucleus of the universities and the administrative functions were headquartered in the main campuses. The researcher therefore was of the view that the main campuses were to yield adequate data for the study with minimum time and costs.

3.4 Population of the study

The study population were the top management staff, directors/managers of non-core departments and Deans of students in all the campuses of the seven public universities in Kenya estimated to be 150 in number.
3.5 Sampling procedures

Studying an entire population is quite costly in terms of time and money. The study was to be completed in a period of four months (a semester) and was financed solely by the researcher. The researcher, therefore, collected data from a sample of four out of the seven public universities in Kenya. Deming in Cooper & Schindler (2003) argued that there is greater accuracy of results by sampling as compared to studying the entire population. His argument was that sampling possesses the possibility of better interviewing (testing), more thorough investigation of missing, wrong, or suspicious information, better supervision, and better processing than is possible with complete coverage.

The selection of the universities studied was done in two ways: randomly in situations where there were two or more in a region and purposively in cases where there was only one. In a regional random draw, Kenyatta and Moi universities were selected to represent Central/Nairobi and Rift Valley regions respectively while Masinde Muliro and Maseno were selected by virtue of the fact that they were the only ones in their regions, i.e. Western and Nyanza regions respectively. The researcher believed that the regions were not equal in their economic activities due to their proximity to urban centres and that it could have had an impact on outsourcing decisions especially on the availability of outsourcing
vendors/suppliers. Furthermore, Kenyatta and Moi universities were to provide information on outsourcing activities in relatively older universities while Maseno and Masinde Muliro universities were to show the state of affairs in younger universities. It was hoped that grouping and sampling universities as explained would help in establishing not only the factors influencing outsourcing decisions in public universities but also any differences in perception of outsourcing as a cost-reduction strategy between the older and younger universities in Kenya.

The study sample comprised all the top management staff, directors/managers of non-core departments and Deans of students in each of the selected universities. The top management comprised the deputy vice chancellors and registrars in charge of administration, planning and development and finance officers. Appendix 1 lists the study respondents in each of the universities studied. There were 7, 9, 8 and 6 respondents from Kenyatta, Moi, Maseno and Masinde Muliro universities respectively, giving a sample size of 30 research participants. The study respondents were purposively selected due to their decision making roles in the universities.
3.6 Data collection methods

The study made use of both primary and secondary data. Primary data was collected directly from the study respondents through questionnaires. Questionnaire method was preferred because of the geographical dispersion of the study sample. It was also convenient for the study respondents to respond to the questions at their own time due to their busy work schedules. The researcher delivered and collected the questionnaires in person from the study respondents. Secondary data was collected through the reviewed literature. These data were obtained from published books and journals, universities' websites and previous studies done by other researchers on the area.

3.7 Data collection instruments

Questionnaires were used to collect the primary data for the study. Same questionnaire was administered to each and every study respondent. The questionnaire had both open-ended and closed-ended questions categorised into seven sections as shown in Appendix 2. The questionnaire was first piloted on a few members of staff. Comments received from the pilot test were used to modify the pilot questionnaire to produce the final instrument that was used to collect data for the study.
3.8 Data analysis

On receiving the filled questionnaires, the researcher looked through the responses to check on omissions and/or inaccuracies and sought clarifications from the respondents where possible. This helped to ensure completeness and accuracy of the data collected.

The data collected were grouped for analysis in a manner as to flow with the objectives of the study. Responses to continuous variables were categorised into specific ranges to simplify the analysis and interpretation of data. Answers to open-ended questions were scanned to determine words and phrases used by the respondents.

The data was then analysed manually using descriptive statistics. Percentages were calculated, ranges of data noted and frequency distribution tables and graphs were developed. Interpretation of the analysed data was presented in chapter four in prose form.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND PRESENTATION

4.1 Introduction

Data collected through the questionnaires were analysed in this chapter. The questionnaires had seven sections namely: background information of the respondents; core and non-core services; outsourcing and reasons for outsourcing; outsourcing and cost reduction; contractual precautions and improvement of outsourcing; and respondents’ general comments on outsourcing. Responses to the questionnaires have been logically categorised into the following seven sub-headings: background information, core and non-core services, management of non-core services, outsourcing and reasons for/against outsourcing, extent/level of non-core service outsourcing, outsourcing and cost reduction, and effective outsourcing. The study findings are presented in this chapter under the above sub-headings.

4.2 Background information

4.2.1 Response to questionnaires

A total of 30 questionnaires were sent out to the top management of the four selected universities and senior officers in charge of support
services. The top management comprised the Deputy Vice Chancellors/Registrars in charge of Finance, Planning and Development; Human Resource Management; and Finance Officers. The support service managers included Hostels, Catering, Transport, Security, Farm, Central Services and Medical Services managers. The Deans of Students in each of the selected universities were also included in the study.

Out of the 30 questionnaires distributed to the study respondents, the researcher managed to collect 21 of them giving a response rate of 70%. The researcher collected 5 questionnaires each from Kenyatta, Maseno and Masinde Muliro Universities; and 6 questionnaires from Moi University. Of the collected questionnaires, 4 (19%) were responded to by the Public universities’ top management/their assistants, 4 (19%) were from the Deans of Students and the remaining 13 (62%) were from the support services managers. This information is illustrated in table 1.

**Table 1: Categories of Respondents**

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Deans of Students</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Non-core service managers</td>
<td>13</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.2.2 Respondents' length of time in the University

The study respondents had served in their universities for various years ranging from one year to 27 years. 5 of the respondents had served in their universities for period between 1-5 years; 4 for period between 6-10 years; 4 for period between 11-15 years; 5 for period between 16-20 years; and 3 for period of over 20 years. Table 2 illustrates these data:

<table>
<thead>
<tr>
<th>Length of time (Years)</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>6-10</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>11-15</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>16-20</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Over 20</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.3 Respondents' length of time in current position

Of the 4 respondents representing public universities' top management, one had worked in his/her current position for 5 years, two had worked for more than 10 years in their current positions, and one had worked for more than 15 years in the position. The 4 Deans of Students had worked for 2, 4, 7, and 23 years in their positions. The 13 support
services managers had worked in their positions for periods ranging from 1-9 years. Table 3 illustrates this information:

Table 3: Length of time worked in the current position

<table>
<thead>
<tr>
<th>Management Position</th>
<th>Number of years in current position</th>
<th>0-5</th>
<th>6-10</th>
<th>11-15</th>
<th>16-20</th>
<th>Over 20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td></td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Deans of students</td>
<td></td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Non-core service managers</td>
<td></td>
<td>9</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>12</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>21</td>
</tr>
</tbody>
</table>

4.3 Core and Non-core Services

Respondents agreed that core services of an organisation are those services for which the organisation was established to do. Some of the responses given included the following:

- *They are the direct services that justify the existence of the organisation.*
• They are the services that are spelt out in the organisation's mission, vision and its mandate.

• Core activities of an organisation are those that the organisation was created to do, i.e. its main objectives.

On the other hand, the respondents labelled non-core services as those services which support the provision of an organisation's core activities. In respondents' own words, non-core services are:

Those services that are not the main objective of the organisation

Those services that support the running of direct services

Support services required for final results.

All the respondents explicitly mentioned teaching and research as the core services of public universities. Other activities which respondents mentioned as being core to public universities in Kenya included: administrative duties; academic activities such as curriculum development; provision of library and information and communication technology services; development of learning facilities; and creativity and innovation. These activities are understandably part of the whole mission of teaching and research.

Respondents mentioned various non-core services provided by public universities in Kenya. These included the following:
• Construction work e.g. construction of hostels and lecture halls and tarmacking of pavements,
• Maintenance work such as repairing of staff houses and grounds keeping,
• Security services such as patrolling of university premises and manning of university gates by university-employed guards,
• Accommodation, catering, cleaning and medical services,
• Transport and garage services,
• Farm work e.g. crop and animal production on universities’ farms,
• Students’ welfare services such as counselling,
• Community outreach/public relations work such as providing selling points to vegetable sellers,
• Staff training and development, and
• Finance and administrative work.

One respondent representing public universities’ top management felt that finance and administrative work was not a core function to public universities. The respondent was of the view that public universities can safely “do away with” (outsource) all finance and personnel functions. In this case, public universities would only remain with a few management staff whose work would be to provide communication link between outsourcing vendors and universities’ management. This envisioned management structure, according to the respondent, would allow universities’ management to dedicate their time to issues of teaching and
research as “opposed to current systems where management spend up to two days conducting interviews for cleaners, sweepers, cooks, and security guards”.

4.4 Funds for the provision of non-core services

4.4.1 Budget allocation

All respondents agreed that in each financial year, their universities set aside funds for the provision of non-core services. However, only 7 (33.3%) of the respondents felt that the yearly allocation of funds to non-core service functions were adequate. Out of these 7 respondents, 4 were representatives of universities top management, 2 were Deans of Students, and one was a manager of one of the several non-core departments. Fourteen (66.67%) of the respondents felt that public universities did not allocate enough funds to non-core departments. Of these 14 respondents, 2 were Deans of Students and 12 were managers of the non-core departments. The table below shows respondents’ views on public universities’ budget allocations to non-core departments.
Table 4: Budget allocation to non-core functions

<table>
<thead>
<tr>
<th>Budget allocation</th>
<th>Category of respondents</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>Management representatives</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Deans of Students</td>
<td>2</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>Non-core service managers</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Not adequate</td>
<td>Non-core service managers</td>
<td>12</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>Deans of students</td>
<td>2</td>
<td>9.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.2 Alternative funding for Non-core functions

To cater for the inadequate funding of non-core university functions, respondents mainly mentioned income generating units as the source of extra funds needed to supplement on the allocated funds. For example, some departments offered photocopying services to students and staff as a way of generating extra cash for their sections. One university’s health unit offered medical services to nearby schools, colleges, and surrounding community at a fee and therefore generated income for the section. One respondent mentioned that in their section, they had resorted to the use of casual labour in an effort to bridge the gap between the section’s allocated funds and its expenses. Four respondents did not indicate where the non-core functions got extra funds to add to their inadequate allocations. These respondents were of the view that the non-
core departments just operated within the allocated budgets, an indication that non-core service provision in public universities did not measure up to standards both in quality and quantity. The respondents wrote that non-core service functions;

"uses the limited resources alone within the financial year’s budget”,

"share the little available”,

"are financed at a lower level ( amount )”,

"cut down some operations and also defer some especially on purchases”.

4.5 Outsourcing and reasons for/against outsourcing

4.5.1 State of outsourcing

Thirteen (62%) respondents said that their universities outsource the provision of some of the non-core services. Out of these 13, 2 were from Kenyatta, 3 were from Moi, and 4 each were from Maseno and Masinde Muliro universities. Eight (38%) respondents mentioned that their universities did not outsource any of the non-core services. Out of these 8, 3 were from Kenyatta, 3 were from Moi, and one each was from Maseno and Masinde Muliro universities. This information is illustrated in Figure 1 below.
Figure 1 shows that both outsourcing and in-house provision of non-core services in old universities were in use almost equally, with in-house provision taking a slight lead. On the other hand, non-core service outsourcing was mostly used in young universities as opposed to in-house provision. This trend could be explained by the fact that young universities possibly started off with outsourcing thus avoiding the tendency to maintain status quo (in-house provision of non-core services) which, as revealed by the study, was a setback to outsourcing decisions in older universities.
4.5.2 Outsourced services

Security services were mentioned by respondents as the mostly outsourced non-core service in public universities. 12 out of the 13 respondents who agreed that public universities outsource some of their non-core services mentioned security services as one of the outsourced functions. Other outsourced non-core functions mentioned by the respondents included:

- catering services,
- construction work such as construction of lecture halls,
- cleaning and grounds keeping services in hostels, and
- repair and maintenance work such as repair of gas tanks, cookers and weighing machines.

4.5.3 Reasons for outsourcing

The respondents gave various reasons as to why their universities outsource the provision of the non-core services mentioned above. However, it was worth noting that 6 or 50% (one respondent did not give reasons) of the 13 respondents who agreed that their universities used outsourcing, mentioned cost-related issues as the reasons for adoption of outsourcing by the universities. These cost-related reasons for outsourcing, as put down by the respondents, included:
• "Outsourcing is more efficient and cost effective. Cost of keeping permanent employees in the non-core departments is eliminated.
• Outsourcing reduces or lowers costs of providing the services.
• Construction work is limited to construction period (i.e. is occasional) and therefore it is costly to keep permanent employees for the section.
• Outsourced services are cheaper and convenient to manage because the burden of day-to-day management is transferred to the outsourcing vendor".

Other reasons for outsourcing that were given by the respondents centred on the universities’ technical abilities to provide the services internally. In this regard, respondents wrote:

• "The university does not have the capacity to provide the services internally because it is involved in many construction projects and all cannot be provided in-house.
• The non-core service provision needs trained personnel to handle the tasks.
• Employed personnel do not have the required skills to perform the tasks.

One respondent mentioned that non-core service outsourcing ensured proper management of the services and improved accountability.
4.5.4 Services not outsourced

As stated in the previous section, the only services that had been partly outsourced according to study respondents were security, cleaning, construction, maintenance and catering services. The rest of the non-core services which included hostels, medical, transport and garage, counselling, and estates services; farm activities; and finance and administrative duties had not been outsourced.

Eleven (52%) respondents agreed that their universities had deliberated on the possibility of outsourcing the non-core services that were still provided internally while 6 (29%) said that their universities had not considered such a possibility and 4 (19%) did not know whether or not their universities had considered outsourcing the services that were not yet outsourced. These responses were fairly evenly distributed between the older and younger universities. 5 of those who answered affirmatively were from the older universities (Kenyatta and Moi) while 6 were from the younger universities (Maseno and Masinde Muliro). The non-affirmative responses were equally divided between the older and younger universities, that is, 3 were from the older universities and 3 were from the younger universities. Similarly 2 of the “I don’t know” responses were from the older universities and the other 2 were from the younger universities. This showed that although there was discrepancy in
adoption of non-core service outsourcing between the old and young universities as shown in figure 1, both the old and young universities acknowledged its possibility and, perhaps, its important contribution to effectiveness in the management of non-core services. Figure 2 illustrates this.

**Figure 2: management's consideration of outsourcing**

Of the 11 respondents who agreed that their universities had considered outsourcing the non-core services which were still provided in-house, 4 were representatives of top management while all the 4 respondents who did not know whether or not their universities had deliberated on the possibility of outsourcing the services were managers of the non-core
services. This gave an indication that non-core service managers were not fully involved in decision making regarding their functions.

4.5.5 Reasons for not outsourcing

The reasons why the public universities studied provided the non-core services internally instead of outsourcing, as given by the respondents, were summarised as follows:

- **Job-related reasons** – respondents felt that the universities feared job loss through outsourcing. Respondents attributed the cause of this fear to political reasons. They argued that most of the personnel working in the non-core departments were people from local communities and that these communities expected the universities to provide them with employment.

- **Supplier problems** – some respondents felt that there were no able outsourcing vendors to offer outsourcing services. A respondent cited a case where the university had contracted out catering services in one of its various kitchens but the outsourcing vendor did not have qualified human resources. Another respondent mentioned that the university advertised for willing operators to tender for the management of catering services but no applicant showed interest. Respondents attributed this lack of seriousness by outsourcing agents to the fact that public universities are not
business-minded and therefore outsourcing vendors feared doing business with them.

- **Change problems** – respondents mentioned that universities feared outsourcing the non-core services because the idea might not be received well by the student fraternity. There was fear that the students would not welcome an increase in price of food items, for example, something which was bound to occur because outsourcing vendors are out to make a profit unlike the universities.

- **Cost implications** – some respondents felt that the cost of outsourcing was higher than the cost of in-house provision of the services. However, it was worth noting that the respondents did not consider the non-monetary costs of in-house provision, for example, management time spent on the day-to-day running of the non-core services.

- **Gradual adoptions of outsourcing** – the universities, according to the respondents, had adopted outsourcing on a piecemeal manner. They were piloting the arrangement on a small scale especially on new and smaller campuses. Thus the respondents felt that non-core services that had not been outsourced could have been on the outsourcing pipeline.
4.6 Extent/level of non-core service outsourcing

The researcher had conducted a pilot study for this research and its findings had shown that none of the non-core university functions had been fully outsourced. The researcher therefore set out to assess the level of outsourcing in each non-core function. The respondents were asked to rate (on a scale of 1-5 where 1 and 5 means low and high extent respectively) the level to which outsourcing was used in each non-core function. The results of the study indicated that majority of security services had been outsourced in public universities. Eight out of the 12 respondents who mentioned that security services in public universities were outsourced ranked the extent of this outsourcing at 4 or up to 80% outsourcing. The remaining 4 respondents gave a rank of 3 (up to 60%), 2 (up to 40%) and 1 (not more than 20%).

Second to security services in extent of outsourcing were cleaning services which got a highest rank of 3 (up to 60%) and a lowest rank of 1 (not more than 20%). Construction work followed with an only rank of 2 (up to 40%) while catering services and maintenance activities were the least outsourced with each getting an only rank of 1 or not more than 20%.
4.6.1 **Factors determining the level of outsourcing**

Respondents mentioned that the selection of non-core services to be outsourced in each of the public universities studied was done by a committee appointed by the university’s management. The committee assessed the technicalities of the non-core service to be outsourced vis-a-vis the ability of the university to provide the services internally. There had not been a deliberate plan, though, by public universities to keenly examine the idea of outsourcing and/or re-evaluate the management of
their non-core services with a view to improving efficiency. The study findings showed that outsourcing decisions in the universities were ad hoc and reactive rather than proactive.

The factors that played a role in determining the non-core services to be outsourced, as given by the study respondents, were classified as follows:

- **Demand for the services** – respondents indicated that most non-core service outsourcing was done on new and smaller campuses. Respondents felt that demand for non-core services in new campuses was relatively less as compared to demand for the same services in older and larger campuses. In this case, respondents argued that university managements saw it to be economical to outsource the services less demanded.

- **Nature of the service** – sanitary disposal was mentioned by some respondents as one of a non-core activity which, due to its nature, one university decided to outsource. Respondents were of the view that it was cheaper for the university to outsource the activity to specialised companies than to put up its own disposal mechanisms.

- **Sensitivity of the services** – study findings showed that non-core services that affected students directly like hostel/accommodation and catering services were regarded by the universities as
sensitive. The universities therefore preferred to provide the services internally than to outsource.

4.7 Outsourcing and Cost reduction

Fifteen (71.4%) respondents agreed that non-core service outsourcing was a cost reduction strategy. All the 4 representatives of top management of the universities studied were among these 15 respondents. Since the top managements were the universities’ decision making bodies, it is likely that they (top management) had analysed the cost implications of outsourcing versus in-house provision of the non-core services. Therefore, their comment on outsourcing as a cost reduction strategy was authoritative. 3 (14.3%) respondents did not agree that outsourcing reduced costs while the remaining 3 (14.3%) did not know whether or not outsourcing has led/could lead to cost reduction in their universities.

Table 5: outsourcing as a cost-reduction strategy

<table>
<thead>
<tr>
<th>Responses</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing reduces costs</td>
<td>15</td>
<td>71.4</td>
</tr>
<tr>
<td>Outsourcing does not reduce costs</td>
<td>3</td>
<td>14.3</td>
</tr>
<tr>
<td>“I do not know” responses</td>
<td>3</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100</td>
</tr>
</tbody>
</table>
4.7.1 Cost reduction through outsourcing

Respondents mostly attributed cost reduction through outsourcing to the reduction in costs of maintaining permanent employees in the non-core universities’ functions. With outsourcing, a non-core department could remain with only one or two permanent employees whose work would be to provide communication link between outsourcing vendor and university’s management. Therefore, salaries and other benefits given to the many permanent employees working in non-core departments would be eliminated.

Respondents also felt that outsourcing increased efficiency in service provision. This was because each outsourcing vendor is a specialist in the services it provides. The benefits of specialisation are known to reduce costs. Another contribution of outsourcing to cost reduction in public universities is through the time saved by management by not having to involve itself directly in the day-to-day running of the non-core functions.

4.7.2 Other cost reduction strategies

Apart from outsourcing, the study respondents mentioned the following other measures which were used by their universities to reduce costs:
• Staff retrenchments,
• Use of casual and part time labour,
• Maximum utilization of available resources. One respondent mentioned that academic workshops were being used by the university to produce physical infrastructure (desks and chairs) for internal consumption and that it was cheaper for the university to produce the furniture than to buy.
• Computerisation,
• Merging of departments to cut down on overhead costs,
• Partnering with existing tertiary institutions in the opening up satellite campuses. In this arrangement, the universities were enabled to reach out to wider population without having to develop needed infrastructure from scratch.

Responses to the ranking of the cost reduction strategies used by public universities studied showed that outsourcing was not the preferred choice. Outsourcing was ranked fourth, the first three being staff retrenchments, use of casual and part time labour, and maximum use of available resources in that order. This response was not surprising because, as mentioned earlier, public universities had not seriously deliberated on the possible benefits of outsourcing. The study findings showed a lack of planned initiative by the public universities to embrace
non-core service outsourcing. One respondent gave the following answer to the question of how outsourcing contributed to cost reduction:

"for now it is still not very significant"

Merging of departments to cut down on overheads was ranked fifth, followed by partnering with tertiary institutions in the opening up of satellite campuses and; lastly computerisation. The following illustration shows the order in which the cost reduction strategies were ranked by the respondents:

- **Staff retrenchments**
  - **Use of casual and part time labour**
  - **Maximum use of available resources**
  - **Outsourcing**
    - **Merging of departments**
      - **Partnering with tertiary institutions**
        - **Computerisation**
4.8 Effective outsourcing

4.8.1 Drawbacks to effective outsourcing

All the 13 respondents who said that non-core service outsourcing was practised in their universities agreed that there was room to improve the outsourcing arrangements already in place and those to be entered into in future. Two main drawbacks to effective outsourcing in the public universities studied were identified by the respondents. These were:

- Lack of commitment by the universities’ management to adopt non-core service outsourcing. Respondents attributed this to fear of job losses and consequent local political implications. Public universities therefore had bowed down to public demand for direct permanent employment from the universities. One respondent mentioned thus,

  "employment is still a sensitive factor in this region and therefore political expediency is important"

- Lack of professionalism in the arrangement of outsourcing contracts. Respondents mentioned that politics, both internal and external, played a major role in the selection of outsourcing vendors. In reference to an outsourcing arrangement that failed in its second month, one respondent put down that,

  "we had consulted, discussed and agreed to a given supplier of the services but were shocked the next day to see a totally
different supplier who had not even made to the list of best three already in action”

4.8.2 Improvements to outsourcing arrangements

The respondents suggested the following remedial measures to the drawbacks to effective outsourcing arrangements:

- Outsourcing arrangements should be conducted in a professional manner with no favouritism. Outsourcing vendors selected should be companies of refute.

- Public universities should conduct an in-depth analysis on the management of their non-core services and critically analyse the pros and cons of outsourcing the services.

- All stakeholders should be involved in decision making regarding non-core service outsourcing in particular, and management of non-core services in general. A typical response read:

  It (outsourcing) needs to be explained to the current employees to avoid fear and apprehension of the concept

- Public universities should properly monitor services rendered by outsourcing vendors to ensure that standards set in the contracts are met. Respondents expressed fear that there is some collusion between university staff and outsourcing vendors to compromise on the agreed standards for their own individual gains. The
universities should therefore ensure that those entrusted with the supervision work are persons of integrity.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of study findings and conclusions drawn thereon. Researcher's recommendations on ways to improve non-core service outsourcing in public universities are also outlined in this chapter.

5.2 Summary of findings

1. The study findings showed that public universities understand that their core services are teaching and research and; that any other activity not directly related to teaching and research are non-core services.

2. A majority of the study respondents (Table 4) felt that funds allocated for the provision of the non-core services by the universities were inadequate. While some non-core departments were able to generate extra income for their use by offering services to the public, majority were not, and they economised on the little funds they got from the universities’ budget allocations.

3. Overall; non-core service outsourcing was minimally used in public universities – young or old. Security services were the mostly
outsourced of the non-core services although these had been done mainly in new and small campuses only.

4. Fear of job losses and its local political implications, deficiency in the number of able suppliers and change problems were mentioned by the respondents as the main reasons why public universities were reluctant to outsource the provision of non-core services.

5. A majority of the respondents, and specifically universities' management, through their assistants, agreed that non-core service outsourcing was a cost reduction measure. However, there was no proper plan of adoption of non-core service outsourcing in public universities and therefore the cost-reduction benefit of outsourcing had not been clearly seen.

5.3 Conclusions

The researcher drew the following conclusions from the study findings:

1. Cost savings from outsourcing was not the only factor influencing outsourcing decisions in public universities. The nature, demand and sensitivity of the non-core services were mentioned by the respondents as the determining factors to outsourcing decisions.

2. The geographical location of the universities did not have an influence on the availability of outsourcing vendors as all the
respondents from the universities studied equally mentioned the lack of able and interested outsourcing vendors as one of the reasons why the universities had not outsourced most of their non-core services.

3. Similarly, the age of the universities did not have an effect on the choice of non-core service outsourcing. Research findings did not show discrepancy in the level of outsourcing between the older and younger universities.

4. Research findings showed that in-house provision of non-core services in public universities denied management time to concentrate their efforts on the provision of core functions of teaching and research.

5. Public universities in Kenya were finding it difficult to provide non-core services in an efficient and effective manner. This is evident by the fact that most of the respondents agreed that the budget allocations to non-core service departments often fall short of the departments' expenditures.

6. Overall; public universities acknowledged the cost-reduction benefits of outsourcing.
5.4 Recommendations

1. Public universities should realise that though their core business is teaching and research, the provision of the many support services is also their responsibility and as such, they should see to it that the services are provided in an effective and efficient manner. Proper outsourcing of the non-core services will ease top managements’ administrative work and service provision will improve because outsourcing vendors are specialists in their areas.

2. Outsourcing of services which are currently provided internally is a change and needs proper management to succeed. One technique of change management is to convince those involved to accept the proposed change prior to its implementation. Rarely does forced change succeed. All the stakeholders should be sensitise on the many facets of the intended change – its importance, the process, possible effects – to avoid wrong speculations which may cause resistance to change. Involving all the stakeholders in decision making will make them own the decisions made and this eases implementation of the decisions. The fear of job loss due to outsourcing as shown by the study findings should be addressed well in advance. Management should exploit avenues for affected employees to be deployed to other sections, given early retirement, or to be absorbed by the outsourcing vendors.
3. Public universities should develop a documented plan of non-core service outsourcing. This will help avoid ad hoc outsourcing decisions which may cause problems and thus bring wrong judgements to outsourcing as a cost reduction strategy. Advice could be sought from organisations which are experienced in the outsourcing field to shed light on the practical benefits, process and challenges of outsourcing.

The researcher strongly believe that through proper outsourcing, provision of non-core services in public universities will be greatly improved. Public universities will be saved of the time and energy to deal with the many and varied personnel matters - from recruitment to retirement issues – and supplier problems, for example. According to respondents, in the short term, the number of management meetings and the direct monetary costs associated with such meetings will reduce while in the long term, the benefits of the time saved through outsourcing will manifest itself when the universities experience more tangible results on their core objectives.

5.5 Suggestions for further research

1. The study was limited by time and costs. Accurate generalisations of study findings may not be possible because of varying
organisational norms in the universities. There is need, therefore, to carry out research in each of the public universities in Kenya in order to get a clearer picture on the state of outsourcing of non-core services.

2. To be able to understand the cost reduction benefit of non-core service outsourcing, there is need to carry out a cost benefit analysis prior and after outsourcing for each non-core service outsourced.
REFERENCES


GoK (1988b), Sessional paper No. 6 on *Education and Training for the Next Decade and Beyond*, Nairobi, Government Printer.


Ngigi, N.J. (2004). *The strategic role of Human Resource Management in Kenyan public universities: A case of Moi University, Main campus, PGD (HRM) project, Moi University.*


APPENDIX ONE

List of study respondents

**Kenyatta University:**
Deputy Vice Chancellor – Finance, Planning and Development
Registrar - Finance, Planning and Development
Dean of Students
Hostels manager
Catering manager
Transport manager
Senior security officer

**Moi University**
Deputy Vice Chancellor – Planning and Development
Chief Administrative officer
Finance officer
Dean of students
Administrative officer in charge of central services
Hostels manager
Catering manager
Transport manager
Chief security officer

**Maseno University**
Deputy Vice Chancellor – Administration and Finance
Finance officer
Dean of students
Administrative officer in charge of central services
Hostels manager
Catering manager
Transport manager
Security manager

**Masinde Muliro University of science and Technology**
Deputy Vice Chancellor – Administration and Finance
Finance officer
Dean of students
Director of security and accommodation
Director of Catering
Hostels and catering manager
Cover letter to Research questionnaire

Biebei Catherine Chelangat
School of Business
Kenyatta University
P.O. Box 48044
NAIROBI.

To: __________________________
__________________________ University

Dear Sir/Madam,

RE: FACTORS INFLUENCING THE LEVEL OF SERVICE OUTSOURCING AS A COST REDUCTION STRATEGY IN PUBLIC UNIVERSITIES IN KENYA

I am an M.B.A student at Kenyatta University. To complete the course, I am required to undertake a research project. It is as a result of this that I decided to conduct the above study in your University.

I wish to request for your participation in this study by answering the questions in the attached questionnaire. Please fill in the questionnaire and return to the undersigned.

All answers to the questions will be treated as confidential and will be used only for the purposes of this study. Please do not write your name anywhere in this cover letter or in the attached questionnaire.

Your assistance will be highly appreciated. Thank you in advance.
Yours faithfully,

Biebei Catherine Chelangat
FACTORS INFLUENCING THE LEVEL OF SERVICE OUTSOURCING AS A COST REDUCTION STRATEGY IN PUBLIC UNIVERSITIES IN KENYA

QUESTIONNAIRE

Section A: Personal Details of Respondent
1) Management position: _______________________________________________________
Number of years served in the University: __________________________
Number of years in the current position: __________________________

Section B: Core and Non-core services
4) In your understanding, what are the core and non-core services of an organization?

5) Based on your answer to question 4) above, what would you say are the core and non-core services provided by your institution? *(Please list in the table below)*

<table>
<thead>
<tr>
<th>Core services</th>
<th>Non-core services</th>
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</table>
Section C: Management of non-core services

6) In a typical financial year, does your university set aside funds for the provision of non-core services?
   □ Yes  □ No (if you ticked “No”, go to Question 8)

7) If your answer to question 6) above is “Yes”, are the funds allocated adequate to cover all the costs expended?
   □ Adequate  □ Not adequate (Go to Question 8)

8) How does the University provide the non-core services in question without adequate annual financial allocation?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

Section D: Outsourcing and reasons for outsourcing

9) Does your university outsource (i.e. contract to other companies) the provision of any non-core services outlined in Question 5 above?
   □ Yes  □ No  □ I do not know
   (if you ticked “No”, go to Question 16)

10) If your answer to question 9) above is “Yes”, which non-core services are outsourced?
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
11) How does your university determine which non-core service(s) should be outsourced?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

12) Please give reasons why each of the non-core services given in question 10) above is provided through outsourcing (If there are services mentioned in 5 but not outsourced, please respond to question 15 too)

<table>
<thead>
<tr>
<th>Outsourced Services</th>
<th>Reasons for outsourcing</th>
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</tbody>
</table>

13) For each of the non-core services, indicate the extent/level to which its provision is currently outsourced [on the scale, 1 means low extent (0%) and 5 means high (100%)]

<table>
<thead>
<tr>
<th>Non-core service outsourced</th>
<th>Extent of outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>2</td>
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<td>3</td>
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<tr>
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<td>4</td>
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<td>5</td>
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<tr>
<td></td>
<td>100%</td>
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<td>1</td>
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<td>2</td>
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<td>2</td>
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<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>
14) What factors are considered in determining the level/extent to which each of the non-core services should be outsourced?

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________

15) At this moment in time, are there any non-core services that are not outsourced by your university?

☐ Yes  ☐ No

(if you ticked “yes”, go to Question 17 below)

16) What are the reasons why your university does not outsource the non-core services in question? (A separate sheet of paper may be attached if necessary)

<table>
<thead>
<tr>
<th>Non-core Service</th>
<th>Reasons for not outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>
17) In regard to the services that are currently not outsourced, has the university management given any consideration to the possibility of outsourcing their provision?

☐ Yes ☐ No ☐ I do not know

(if you ticked "No", go to Question 16)

18) If your answer to question 17) above is "Yes", what were the deliberations?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

( Go to Section E)

19) If your answer to question 17) above is "No", what are the reasons for not considering outsourcing of non-core services?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Section E:

Outsourcing and cost reduction

Do you consider outsourcing of non-core services as a cost reduction strategy in your university?

☐ Yes ☐ No ☐ I do not know

(if you ticked "yes", go to Question 22)

What would you consider as the main cost-reduction strategies used in this university?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
How does outsourcing contribute to cost reduction in your university?

Which other cost reduction strategies are used by your university?

Please list all the cost reduction strategies mentioned in Questions 17, 18 and 20 and indicate how important each one of them is as a strategy for reducing cost in your university (on a scale of 1-5, 1 is the least important and 5 is the most important, circle the rank)

<table>
<thead>
<tr>
<th>Cost reduction strategy</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Least - Highest</td>
</tr>
<tr>
<td>1 2 3 4 5</td>
<td></td>
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<td>1 2 3 4 5</td>
<td></td>
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<td>1 2 3 4 5</td>
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<td>1 2 3 4 5</td>
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<td>1 2 3 4 5</td>
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<td>1 2 3 4 5</td>
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<tr>
<td>1 2 3 4 5</td>
<td></td>
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</tbody>
</table>
Section F:
Improvements to outsourcing

25) In your view, what may be considered as the main drawbacks to effective and efficient outsourcing of non-core services in your institution?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

26) Do you think the provision of non-core services through outsourcing in your institution could be improved?

☐ Yes  ☐ No

27) If your answer to question 26) above is "Yes", what improvements should be implemented to make non-core service outsourcing effective and efficient? *(Please explain)*

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Section G:
Other comments on outsourcing

28) What contractual precautions has your university put in place to ensure that outsourcing of non-core services is beneficial to the university?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
29) What is your view on suitability of outsourcing non-core services as a cost-reduction strategy in your institution, in particular, and at public universities in general?


30) Any other comment(s) on outsourcing for improved non-core service provision


END

Thank you for your assistance