An Empirical Analysis Of The Relationship Between Strategic Outsourcing And Performance Of Kenya Commercial Bank In Kenya

Muli Kialyulo
Godfrey M. Kinyua
School of Business, Kenyatta University, Nairobi, Kenya

Abstract: An organization’s superior performance mostly results from its strategic choice that provides the firm a better positioning in the industry structure. The decline is attributed to low interest rates, increased fees and commissions resulting from use of digital platforms, slowdown in economic activity and the political uncertainty experienced in the country. Therefore, KCB must look ahead for the various response strategies to be able to survive in this dynamic environment. This study aimed at investigating an empirical analysis of the relationship between strategic outsourcing and performance of Kenya Commercial Bank In Kenya. This study was anchored by agency theory. This study used descriptive research design. A target population of 130 respondents was obtained from corporate, functional and business level. Stratified sampling method was used together with simple random sampling method to select the respondents. Primary data was collected using structured questionnaires. The piloting exercise involved ten respondents to test the validity and reliability of the research instrument. Validity was ensured through content validity and reliability through Cronbach alpha coefficient. Quantitative data was analyzed using descriptive statistics such as mean and standard deviation and the analysis was presented using tables, figures and charts. Qualitative data obtained from the open ended questions was analyzed thematically in line with study objectives. In order to test the relationship between variables and the extent to which they are influence each other multiple regression analysis was conducted. The study established that strategic outsourcing positively and significantly influences organizational performance. The study concluded that the bank carries out a strategic outsourcing to improve its focus on core business activities in terms of its strengths, allowing employees to concentrate on their main tasks and on the future strategy. The study recommended that the bank should get people who have values that are aligned with theirs and those who subscribe to the Bank’s purpose and vision

Keywords: Strategic Outsourcing, Response Strategy and Organizational Performance

I. INTRODUCTION

Organizations have found it necessary in recent years to engage in strategic thinking in order to achieve their corporate goals (Berry, 2017). According to Machuki and Aosa (2016) the key concern over time in strategic management has been how to improve performance and effectiveness of firms. The authors further observe that the changes and predictability in the external business environment in which firms operate determines how they fit competitive strategies and their eventual performance. Therefore, the choice of competitive strategies is partly determined by firm’s competitive forces in the market because firms have to match the turbulence in the environment with their aggressiveness.

Pearce and Robinson (2012) point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to environmental turbulence. Therefore, it can be observed that for organizations to fit in the turbulent environment, there must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can
provide. Rust and Oliver (2014) observe that provision of excellent quality services is a key factor in enhancing organizational performance in the globalized market. Organizational management uses the quality of service as a lever to create competitive advantage through knowing how customers perceive the quality of their services.

Achieving a competitive advantage position and enhancing organizational performance relative to their competitors are the main objectives that business organizations in particular should strive to attain (Raduan, Jegak, Haslinda & Alimin, 2016). Therefore, a commercial bank may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirement. Kunhui, Shen and Tan (2017) argue that it is imperative that one of the key agendas of the top management team of an organization should be to identify and adopt effective response strategies in order to survive in different competitive situation.

According to Pearce and Robinson (2012) for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. The dynamism of the environment implies that the organization has constantly redesigned their strategies in order to remain competitive. According to Acur and Englyst (2016) failure to effectively adapt the organization to its environment leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. To succeed in an industry, an organization must select a mode of strategic behavior which matches the levels of environmental turbulence, and develop a resource capability which complements the chosen mode.

Aremu and Oyinloye (2014) observe that in order for the banking industry in Nigeria to thrive well in this modern contemporary age, there is need for such organization to embrace appropriate strategic response management in its fullness. Hence, these banks need to respond faster, control costs better, embrace technological changes and be more proactive in its approach to strategic management. Aremu and Oyinloye (2014) further observe that measuring organizational performance is a very important aspect of operational activities which must not be neglected by managers of an organization. It serves as a means of being accountable to stakeholders of an organization and it is a practical way of ascertaining the need for a change.

Previous scholars have linked organizational outcomes to diverse strategic resources such as knowledge assets (Kinyua, 2015), operational capability (Ong’esa & Kinyua, 2020), corporate reputation (Muthoni & Kinyua, 2020) and innovation capability (Mugambi & Kinyua, 2020). In addition, non-financial indicators have also been substantially used in operationalizing organizational performance in the financial sector (Mbugua & Kinyua, 2020; Gabow & Kinyua, 2018; Kimaru & Kinyua, 2018). This therefore validates the choice of non-financial indicators as measures of performance of Kenya Commercial Bank.

Lengwa (2016) indicate that performance of commercial banks in Kenya is a major consideration while formulating and implementing the choice of strategies adopted by financial institutions while financial resources are determinant in implementation of response strategies and suggest that business strategies in response to changing business environment should involve managers in the formulation of such strategies and give them adequate decision making authority in the implementation of the respective response strategies. Therefore, it be argued that the large number and wide variety of business strategy decisions required to strategize and deliver a service are made at several levels in the organization, from the strategic level to the operational and service encounter levels.

II. LITERATURE REVIEW

A. AGENCY THEORY

Agency theory as suggested by Meckling and Jensen (1976) deals with the principal agent problem, in which the principal delegates an activity to an agent. Principals and agents are assumed to be self-interested, rational and risk-averse (Gereffi & Wadhwa, 1993). Agency theory deals with two problems. The first is the agency problem, in which the agent’s goals do not always meet with the principal’s, and it is difficult or expensive for the principal to verify or control the agent’s behavior. The second problem is that of risk-sharing. Since both the agent and the principal are risk-averse, they may prefer different approaches towards risk-sharing. This results in increased agency costs for developing monitoring and enforcing contracts.

Agency theory has several areas of overlap with transaction cost economics. It includes the assumption of opportunistic behavior through the belief that the agent will not behave in the principal’s best interests. It also includes the assumption of bounded rationality through the belief that it is not possible to write a complete contract. There is also content overlap between the agency theory constructs of outcome uncertainty, span of control and programmability, and the transaction cost construct of imperfect information (Sharpe, 1997). Span of control relates to the number of staff a manager is able to oversee.

Agency theory will be relevant to the study as it indicates the relationships between agents and principals in strategic outsourcing. The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest. The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests.

B. EMPIRICAL LITERATURE REVIEW

Musau (2016) study examined the impact of strategic outsourcing on organizational performance. The study employed a descriptive research design. Data was analyzed using descriptive statistics, correlation and regression analysis then presented in tables. The findings of the study were: cost driven outsourcing, innovation driven outsourcing, and focus driven outsourcing had a significant influence on organizational performance. However, the study context was a case study of Bidco Africa Limited.
Munanu (2017) study examined the relationship between strategic outsourcing on organizational performance. This study used a case study research design involving quantitative methods. Purposive examining strategy was utilized. Quantitative data was analyzed using descriptive statistics. The findings revealed that strategic sourcing positively contributed to cost efficiency. It was established that strategic sourcing at positively contributes to profitability. It was concluded that outsourcing positively affects the organizational performance. However, the study focused on the performance of the administration Police Service.

Kihanya, Wafula, Onditi and Munene (2015) study examined the role of strategic sourcing on organization’s performance. Descriptive research design was used in conducting this study. The target population for the study were the employees of Jomo Kenyatta University of Agriculture and Technology, Main Campus. Questionnaires were used to collect data. The findings of this study suggested that strategic sourcing enables the organization to achieve strategic advantage and at the same time act as a means in which a business condition or problem can be alleviated in a more efficient and effective manner. However, study context was performance of higher institution of learning.

Rajee and Hamed (2013) study investigated outsourcing services as a strategic tool for organizational performance. The results show that the more an organization outsourced, the higher its organizational growth, and organizational productivity are positively correlated to the amelioration of competitive advantage of labor productivity and average production cost. The study also revealed that outsourcing is beneficial to organizational performance, and enhances firm’s financial economies and competitive advantage in the market place. However, the study was an exploratory study of Nigerian food, beverage, and tobacco industry and the current study focus on performance of Kenya Commercial Bank.

The study adopted the following research hypotheses. 

\( H_0: \) There is no statistically significant influence of strategic outsourcing on organizational performance among in Kenya Commercial Bank

\( H_1: \) There is a statistically significant influence of strategic outsourcing on organizational performance among in Kenya Commercial Bank.

### III. RESEARCH METHODOLOGY

Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money (Kothari, 2004). Therefore, this study used descriptive research design. According to Guest (2013) descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. Therefore, the researcher used the design to collect and present the data according to the respondents’ perspective without altering any of the response.

The unit of analysis was Kenya Commercial Bank Headquarters in Nairobi City County, Kenya and the unit of observation was employees of the Bank. The sample frame is shown in Table 3.1.

<table>
<thead>
<tr>
<th>Strata</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Level</td>
<td>21</td>
<td>16.2</td>
</tr>
<tr>
<td>Business Level</td>
<td>42</td>
<td>32.3</td>
</tr>
<tr>
<td>Functional Level</td>
<td>67</td>
<td>51.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: KCB, HRM Department Report of 2019

Table 3.1: Target Population Sampling Frame

A target population of 130 respondents was obtained from corporate, functional and business level. From the table 3.1 above, 163.2% of the population comprises of the respondents from corporate level, 32.3% belong to the business level, and 51.5% of the population makes the majority in the functional level.

Sampling design is the process of obtaining information about an entire population by examining only a part of it (Onwuegbuzie & Leech, 2017). Stratified sampling method was used to group respondents into three strata namely corporate level managers, business level managers and functional level managers in order to ensure representativeness of all the cases. Simple random sampling method was used to select the respondents. Taru Yamane (1967) assuming an error term of 5%.

\[
 n = \frac{N}{1+N(e)^2} \times \frac{1+130(0.05)^2}{130} 
\]

\[
 n = 98 
\]

The proportionate distribution of sample size was obtained using a 0.754. This is shown in Table 3.2.

<table>
<thead>
<tr>
<th>Strata</th>
<th>Population</th>
<th>Sampling Factor</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Level</td>
<td>21</td>
<td>0.754</td>
<td>16</td>
<td>16.2</td>
</tr>
<tr>
<td>Business Level</td>
<td>42</td>
<td>0.754</td>
<td>32</td>
<td>32.3</td>
</tr>
<tr>
<td>Functional Level</td>
<td>67</td>
<td>0.754</td>
<td>50</td>
<td>51.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130</strong></td>
<td><strong>0.754</strong></td>
<td><strong>98</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2019)

Table 3.2: Distribution of Sample Size

Table 3.2 above shows the sample size of 98 respondents from whom the survey was conducted. From the table above, the largest proportion of the respondents was from the functional level, contributing to 51.5%, the business level was 32.3%, and the corporate level comprised of 16.3%.

Primary data was collected using structured questionnaires. The questions followed a likert scale whereby the respondents were required to rate questions as per their level of agreement. In addition, there was open ended question after each study variable to enable the respondents to add...
The researcher obtained an authorization letter from the University. Thereafter a research permit from National Commission for Science, Technology and Innovation (NACOSTI) was obtained. The researcher booked for appointments with the concerned authorities and explained to them the objective of intending to carry out a study within their organization. After getting the consent from the management, the researcher together used a ‘drop and pick’ method administration of questionnaires. The questionnaires were picked in duration of 4 weeks that gave the respondents an ample time to go through all the questions. This aided in enhancing the response rate and ensuring that the information gathered is accurate and reliable.

Data obtained from the questionnaires was first edited, cleaned and categorized into common themes to represent meaningful data. The researcher checked the questionnaires for completeness and consistency. The questionnaires were assigned codes to allow the researcher to minimize errors during data entry and processing, enhance confidentiality and provide for easy interpretations of results. Thereafter, data was carefully keyed in on the basis of assigned codes and a final check conducted on the data file to confirm accuracy, erroneous data, completeness and consistency.

Quantitative data was analyzed using descriptive statistics such as mean and standard deviation. Descriptive helped to generate the summary measures of the observed sample and prepare the quantitative data for further statistical analysis. The analysis was presented using tables, figures and charts. This was made possible by using Statistical Package for Social Sciences (SPSS) version 20.0. Qualitative data obtained from the open ended questions were analyzed thematically in line with study objectives.

Inferential statistics made use of simple regression analysis because there was only one explanatory variable involved in this study. The regression equation was: \[
Y = \beta_0 + \beta_1X_1 + \epsilon
\]

Whereby \( Y \) = Organizational Performance
\( X_1 \) = Strategic Outsourcing

The result from reliability was strategic outsourcing had an alpha value of 0.799 and Organizational Performance with Cronbach alpha values as 0.786 produced using SPSS 21.0. The average alpha coefficient for every individual variable was way above 0.7 which satisfies the recommendation made by Mugenda and Mugenda (2003) that an alpha coefficient score of above 0.7 shows that the instruments are highly reliable. According to Punch (2015) who recommended that an alpha coefficient of between 0.75 and 1.0 is reliable for the findings to be done obtained. Therefore, the average score of Cronbach’s Alpha Index (α) value of 0.795 obtained was thus acceptable as it is within the range.

### Table 3.3: Results of Reliability Tests

<table>
<thead>
<tr>
<th>Research Variable</th>
<th>Cronbach’s Alpha Index (α)</th>
<th>Number of Questionnaire Item</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Outsourcing</td>
<td>0.799</td>
<td>6</td>
<td>Reliable</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>0.786</td>
<td>3</td>
<td>Reliable</td>
</tr>
<tr>
<td>Average Score</td>
<td>0.795</td>
<td>9</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

*Source: Pilot Study (2020)*
Commercial Bank to improved focus on its core banking activities allowing the staff to concentrate on their main tasks and on the future strategy (M=4.02, SD=1.719). According to Kremic, Tukel and Rom (2016) outsourcing contract may be affected by organizational human and environmental factors. In order to build a satisfied relationship with service provider, firms need to equip themselves with the right knowledge and relationship management capabilities.

The respondents indicated to a moderate extent strategic outsourcing helps the bank to leverage knowledge and skills along with your complete supply chain (M=4.53, SD=1.129). Munanu (2017) observe that although outsourcing most of the times is cost-effective at times the hidden costs involved in signing a contract while signing a contract across international boundaries may pose a serious threat. An outsourced vendor may be catering to the expertise-needs of multiple organizations at a time. In such situations vendors may lack complete focus on your organization’s tasks.

### Table 4.2: Descriptive Statistics for Organizational Performance

The findings in Table 4.2 show that the respondents agreed that performance of Kenya commercial bank in Kenya was to a great extent as indicated by the aggregate mean score of 4.26 with standard deviation of 0.837. Parmenter (2015) observe that the performance of an organization is used to measure firm’s overall financial and non-financial well-being over a given period of time.

The respondents strongly agreed that the bank has improved its operational efficiency (M=4.66, SD=0.602), the bank has increased its market share (M=4.53, SD=1.129) and that the bank offers products and services that is of satisfactory to their customers (M=3.58, SD=0.781). According to Pearce and Robinson (2012) for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. The dynamism of the environment implies that the organization has constantly redesigned their strategies in order to remain competitive.

### B. TEST OF HYPOTHESES

Regression analysis was carried out to show the extent to which strategic outsourcing influence the performance of Kenya Commercial Bank. The findings are shown in Table 4.3.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Squared</th>
<th>Adjusted R Squared</th>
<th>Std. Error of Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.346</td>
<td>.119</td>
<td>.081</td>
<td>.096</td>
<td>180.582</td>
<td>4</td>
<td>84</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2020)
The strategic outsourcing, explain 89.1% of performance of Kenya Commercial Bank as represented by the adjusted R square. This therefore means that other factors not studied in this research contribute 10.9% of performance.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>20.614</td>
<td>4</td>
<td>5.154</td>
<td>180.58</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>2.397</td>
<td>84</td>
<td>.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23.011</td>
<td>88</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Research Data (2020)*

**Table 4.4: Analysis of Variance**

The value 0.000a shows the significance level is less than 0.05 showing a statistical significance of the model on how strategic outsourcing studied influenced the performance variable. The results also indicate that F calculated value is greater than the value of F tabulated (180.58 > 5.154) at 5% significance level confirming the significance of the model.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.524</td>
<td>.179</td>
<td>6.283</td>
<td>.000</td>
</tr>
<tr>
<td>Strategic Outsourcing Strategy</td>
<td>0.889</td>
<td>.040</td>
<td>2.342</td>
<td>7.228</td>
</tr>
</tbody>
</table>

*Source: Research Data (2020)*

**Table 4.5: Regression Coefficients**

The findings in Table 4.5 revealed that holding strategic outsourcing to a constant zero, performance of KCB would be at 0.524 factor. The study further established that a unit increase in strategic outsourcing strategy would increase performance of KCB by a factor of 0.889.

Therefore, the predictive model that yielded from the regression analysis of resource fluidity and firm performance is shown below.

Organizational Performance = 0.524 + 0.889Strategic Outsourcing

The study found that strategic outsourcing strategy had a positive and significant relationship on performance KCB as shown by t values (t=7.228, <0.005). This is consistent with Munanu (2017) study that concluded that outsourcing positively affect the organizational performance. However, the study focused on the performance of the administration police service. Holcomb and Hitt (2017) indicate that in order to maintain their competitive capabilities, the firms have been looking for ways to re-engineer their internal processes in order to improve their service levels.

C. ANALYSIS OF QUALITATIVE DATA

The respondents indicated that the bank outsource primarily to cut costs because the bank relies on a specialized partner whose main business activity that the bank outsource, access skilled expertise, reduce overhead, flexible staffing, and increase efficiency, reduce turnaround time and eventually generate more profit.

V. CONCLUSIONS AND POLICY IMPLICATIONS

The study sought to determine the influence of strategic outsourcing on the performance of Kenya commercial bank in Kenya and determined that strategic outsourcing positively and significantly influences the organizational performance. Strategic outsourcing help the bank to make business more flexible and agile, able to adapt to changing market conditions and challenges, while providing cost savings and service level improvements and that strategic outsourcing enables Kenya Commercial Bank to increase its operational efficiency thus achieving a more productive, efficient service, often of greater quality.

The study concluded that the bank carries out a strategic outsourcing to improve its focus on core business activities in terms of its strengths, allowing employees to concentrate on their main tasks and on the future strategy. Strategic outsourcing helps the Bank achieve a more productive, efficient service, often of greater quality. It also gives the Bank access to capabilities and facilities otherwise not accessible or affordable. The study recommended that the bank should get people who have values that are aligned with theirs and those who subscribe to the Bank’s purpose and vision. Set realistic goals to give employees a target to focus on so as to boost their morale and inspire everyone to work harder towards improving the performance of the organization. The Bank should invest in training and development to those managing the strategic outsourcing and proactively build positive relationship.

VI. SUGGESTIONS FOR FURTHER STUDIES

The study aimed at investigating how response strategies influence the performance of Kenya Commercial Bank in Kenya. The selected response strategies retrenchment strategy, investment strategy, enterprise risk management strategy and strategic outsourcing strategy on the performance. Therefore, the study suggests that further studies should be carried out that focus on different response strategies apart from the ones studied to see the extent to which they influence the performance. The study also suggests that similar studies to be done that focus on other financial institutions.

REFERENCES


