BUSINESS PROCESS OUTSOURCING AND ORGANISATIONAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

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To my parents John Gituma and Magdalene Gituma for teaching me the values of hard-work, determination, persistence, resilience and positive thinking.

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OPERATIONAL DEFINITION OF TERMS

Business Process Outsourcing: Strategy involving handing over the operations and responsibilities of an organisation's business process to a specialised vendor in order to improve the quality of business processes, reduce operational costs, improve operational efficiency and effectiveness, access superior resources and capabilities from vendors, and save time for management to concentrate on their core business in order to meet organisational as well as stakeholder expectations.

Commercial Bank: An institution that provides services such as accepting deposits, making business loans, and offering basic investment products.

Competitive Advantage: Leverage gained through acquisition of superior resources and dynamic capabilities from specialised vendors that enable commercial banks to manage costs, offer unique products to their varied clientele, improve their bottom line; and have a unique position in the market that is superior to its competitors.

Core Competences: Distinctive capabilities that are organisation-specific and difficult to duplicate that give it competitive advantage over the competition.

Dynamic Capabilities: Distinctive abilities that enable an organisation to integrate, build, and reconfigure its internal and external competences to address rapidly changing business environments.

Human Resource Management Processes Outsourcing:	Strategic choice by a commercial bank to hand over the management of certain HRM business processes to specialised HRM vendors in order to improve the productivity of the bank's human resources that is crucial in the overall bottom-line of the bank.
Information Technology Processes Outsourcing:	Strategic choice by a commercial bank to hand over the management of certain IT business processes to specialised IT vendors in order to gain the flexibility to respond to the dynamic business environment, improve product innovation and customer service.
Marketing Processes Outsourcing:	Strategic choice by a commercial bank to hand over the management of certain marketing business processes to specialised marketing agencies in order to gain competitive advantage in providing competitive marketing mix and to sustainably provide customer value and satisfaction cost-effectively to its varied clientele.
Organisational Characteristics:	Organisation-specific attributes that influence commercial bank's management decision making and choice of competitive strategies. Such attributes are deemed to affect the relationship between the independent and dependent variables.
Organisational Performance:	Fulfilment of stakeholders' expectations by delivering profits, increasing market share, improving efficiency of business processes, customer satisfaction and employee satisfaction.

Outsourcing:	Handing over select value contributing activities or processes of commercial banks to a vendor to save costs and time for the principal to focus on its areas of key competence.
Performance Measurement:	Determination of outcomes and results, which generate reliable data on the effectiveness and efficiency of adopted strategies through financial and non-financial analysis.
Security Processes Outsourcing:	Strategic choice by a commercial bank to hand over the management of certain security processes to specialised security agencies in order to benefit from their state-of-the-art security resources and capabilities in managing the complex contemporary security challenges in commercial banking institutions that eventually affects the bank's bottom-line.

ABBREVIATIONS AND ACRONYMS

AIB	Afrika Investment Bank
BOC	Bank of China
BPO	Business Process Outsourcing
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
CA	Competitive Advantage
CBK	Central Bank of Kenya
CCTV	Closed Circuit Television
CLRM	Classical Linear Regression Model
CRB	Credit Reference Bureau
DTBK	Diamond Trust Bank Kenya
EU	European Union
FOREX	Foreign Exchange
GDP	Gross Domestic Product
HR	Human Resource
HRM	Human Resource Management
HRMO	Human Resource Management Outsourcing
HSBC	Hong Kong and Shanghai Banking Corporation
IIF	International Institute of Finance
IMF	International Monetary Fund
IS	Information Systems
IT	Information Technology
ITO	Information Technology Outsourcing
KMO	Kaiser-Meyer Olkin
KPMG	Klynveld Peat Marwick Goerdeler
MFB	Micro-Finance Banks

MFI	Micro-Finance Institutions
MPO	Marketing Processes Outsourcing
MRP	Money Remittance Provider
NACOSTI	National Commission for Science, Technology and Innovation
NIM	Net Interest Margin
NPL	Non-Performing Loans
OC	Organisational Characteristics
OLS	Ordinary Least Squares
PhD	Doctor of Philosophy
PR	Public Relations
PWC	PricewaterhouseCoopers
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SBM	State Bank of Mauritius
SCA	Sustainable Competitive Advantage
SD	Standard Deviation
SGAS	Selling, General Advertising, Sales
SME	Small and Medium Enterprise
SPO	Security Processes Outsourcing
SSA	Sub-Saharan African
TCE	Transactional Costs Economic Theory
TPI	Technology Partners International
UK	United Kingdom
US	United States of America
USA	United States
VIF	Variance Inflation Factor

ABSTRACT

The overarching objective of any going-concern business entity is performance sustainability. However, performance sustainability challenges continue to persist in the banking industry despite appropriation of different performance management strategies. This challenge obtains in commercial banks in Kenya as evidenced by the recent assumption of cost rationalisation measures, increasing volumes of non-performing loans, acquisitions, liquidation, and statutory management of some banks due to liquidity problems. Thus, this study sought to establish the efficacy of business process outsourcing strategy in addressing performance challenges of commercial banks. Specifically, the study sought to establish the effect of outsourcing information technology, human resource management, marketing, and security processes on performance of commercial banks in Kenya; the mediating effect of competitive advantage and the moderating effect of organisational characteristics on the relationship between BPO and performance of commercial banks. The philosophical foundation of the study was positivism. The study employed descriptive and explanatory research designs and was longitudinal in nature. The target population was thirty two commercial banks. Four managers from each commercial bank at the headquarters (Information Technology, Human Resource Management, Marketing and Operations departments) were targeted thus yielding a sample size of one hundred and twenty eight respondents. Primary data were collected using self-administered questionnaires based on the 5-point Likert scale. Descriptive statistics were computed to describe the characteristics of the study variables while multiple linear regression analysis was used to establish the nature and magnitude of the relationships between the independent and dependent variables. All statistical tests were subjected to 95 per cent level of significance ($p=\leq 0.05$). The study established that outsourcing information technology, human resource management, marketing, and security processes, all had statistically significant positive effect on performance of commercial banks in Kenya. Competitive advantage was found to fully mediate the relationship between BPO and bank performance while bank size was found to moderate the relationship between BPO and bank performance. Owing to the empirical findings, commercial banks in Kenya should wholly embrace BPO as an effective performance management strategy and widen the bracket of the range of businesses processes to be outsourced. Extant literature shows that most commercial banks mainly outsource non-critical non-core business processes. Positive results of this study that focused mainly on critical non-core business processes should motivate and give more confidence to the top management in outsourcing more critical processes and gradually core business processes as is the case in developed countries. Management of commercial banks should give more attention to outsourcing of marketing processes as well as software development as they were highly correlated with bank performance. Whereas, outsourcing training was highly supported by respondents, outsourcing recruitment and performance management were not. Therefore, vendors should exercise due diligence in understanding specific requirements for different industries. Commercial banks should be more creative in managing their security processes as their outsourcing was the least correlated with performance. With the modern trend of housing banking halls under the same roof with other business entities especially in shopping malls, managing physical security can be collaboratively done in order to save on costs. The study findings are instrumental in informing the Central Bank of Kenya decisions when reviewing policies relating to business process outsourcing in commercial banks.

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Commercial banks globally continue to face performance sustainability challenges which have been attributed to adverse macro-economic environment and a globally hypercompetitive business environment; new technologies, economic uncertainties, political uncertainties, fierce competition from a wider range of actual and potential suppliers of banking services, who include but not limited to capital markets, money markets, non-banking financial institutions, and non-financial banking institutions; new legislations capping interest rates, disclosure laws that have eroded some of the information advantages traditionally held by banks thus making such information easily accessible to direct and indirect competitors (AIB Capital Ltd, 2017; CBK, 2017; Cytonn Investment Ltd., 2017; Ernest & Young, 2017; IMF, 2017; KPMG, 2017; World Bank, 2017).

The World Bank (2017) and International Monetary Fund (IMF, 2017) Annual Reports indicate that although commercial banks in advanced economies such as the United States and China are recovering from the global financial crisis of 2007-2008, and now have stronger balance sheets, majority of commercial banks in other regions are struggling to show sustainable profitability. Bank profitability in the European Union (EU) remains far lower than in the pre-crisis period with the annualised return on equity (ROE) falling to 5.4% in 2016 from 5.7% in 2015 and non-performing loans (NPLs) rising from 2% of total loans in 2006 to a harsh peak of 8% in the Euro area in 2016. Net profits in the top three Japanese banks decreased by 8.2% in 2016; Brazilian banking industry total profits declined by 23% in 2016 while pre-tax profits of Australian banking industry in 2016 declined by 3.23% and ROE fell

by 3.9 percentage points to 10.1% (Bank of China International Institute of Finance, 2017; Ernest & Young, 2017; KPMG, 2017). Regionally, African commercial banks have continued to register rising levels of NPLs, declining returns on assets (ROA) and returns on equity (ROE) over the past several years (IMF, 2016; BOC IIF, 2017).

In Kenya, the Central Bank Supervision Annual Report (2017) showed that the commercial banking sector recorded a decline of 9.6% in pre-tax profits; asset quality declined with the non-performing loans (NPLs) ratio increasing from 9.3% in December 2016 to 12.3% in December 2017, income declined by 3.12% in the period ended December 2017 while annualised net interest margins (NIM) fell to 7.1% in 2017 from 8.9% in 2016. In 2017, Tier 1 (large) commercial banks interest income declined by 9.7%, Tier 2 (medium) declined by 18%, Tier 3 (small) also declined by 18%. Listed commercial banks in the Nairobi Securities Exchange recorded a 13.8% decline in core earnings per share compared to a growth of 15.5% in 2016. Local public commercial banks contribution to the sector's total assets declined to 3.9% in 2016 from 4.5% in 2015 with that of foreign-owned commercial banks remaining unchanged in 2016 from 2015 at 30.9% (Central Bank of Kenya, 2017; AIB Capital Ltd, 2017; Cytonn Investment Ltd., 2017).

Owing to these performance challenges, several small and medium banks experienced liquidity problems resulting to Chase and Imperial Banks being put under receivership, liquidation of Dubai Bank and acquisitions of Giro Bank by I&M Holdings Ltd in February 2017; Fidelity Commercial Bank Ltd by SBM Bank (Kenya) Ltd in May 2017 and Habib Bank (K) Ltd. by Diamond Trust Bank Kenya (DTBK) in August 2017. Commercial banks

also resulted to cost rationalisation measures through staff lay-offs and closing down redundant branches (AIB Capital Ltd, 2017; CBK, 2017; Cytonn Investment Ltd., 2017).

To address performance challenges, commercial banks the world over have adopted dynamic management strategies such as business processes outsourcing (Mukuna, 2014; Awino & Mutua, 2014; Ghikas, 2012; McIvor, 2008). Empirical research shows that the banking industry is the second only to the manufacturing industry in the appropriation of BPO owing to its highly intensive technological nature (Dibberns, 2005). The phenomenon of BPO has continued to grow as organisations focus on their core business where they have core competencies and outsourcing non-core functions such as human resource management, marketing and information services; security, cleaning, catering, transportation, legal, valuation, and financial services thus increasing its popularity globally (Willcocks, 2010).

The growing popularity of BPO as a contemporary performance management strategy in the banking industry is supported by several global research agencies including KPMG (2007), PricewaterhouseCoopers (PWC, 2007) and Technology Partners International Inc. (TPI, 2009). In the United States (US), two-thirds of the retail and commercial banks outsource one or more business functions. A lot of high-profile banks such as J.P. Morgan Chase & Company, Deutsche Bank, ABN AMRO, American Express, Standard Chartered, HSBC, City Bank and Bank of America outsource part of their business processes, IT services or applications (Yu, 2010). Extant literature shows that BPO is widely practised in the developed countries such as the US, UK, Germany and Japan (Jain & Natarajan, 2011; Yu, 2010). Recently, there has been a growing appreciation of the use of BPO strategy in developing and emerging economies such as Brazil, Russia, India, China, South Africa (BRICS), and the

Philippines, among others (Kumar, 2005; Yang & Huang, 2010). In Africa, countries like Mauritius, South Africa, Ghana, and Egypt lead the pack in BPO albeit slowly (Waema, Odera, Adeya-Weya, Were, Masinde, Chepken, Kariuki, & Kenduiywo, 2009).

A survey of BPO in the commercial banks in Kenya showed that both private and public commercial banks outsource a number of non-core business processes such as information technology, human resource management; sales and marketing, customer service and financial which are deemed to have a direct strategic effect on performance. Others include security, transportation, cleaning, legal, valuation reports, auctioneering, catering, maintenance, card production and repair, and printing services, among others (Barako & Gatere, 2008; Awino & Mutua, 2014; Ghikas, 2012; King'ori, 2012).

Proponents of BPO strategy link it with various organisational performance outcomes such as enabling organisations to shift focus to their core processes and strategic issues thus handing off non-core processes to be managed by third parties, competitive advantage, improved service levels: productivity, flexibility, speed, and innovation in developing business applications; access to new technologies and specialised expertise (Hamel & Prahalad, 1994; Greer, Youngblood & Gray, 1999; Handfield, 2006; Yang, Kim, Nam, & Min, 2007; McIvor, 2008; Barako & Gatere, 2008; Lee & Kim, 2010; Ghikas, 2012; Awino & Mutua, 2014).

However, its critics argue that its effect on performance may be over-estimated and the transaction costs underestimated. Moreover, extant research on the linkage between business process outsourcing and organisational performance in different industries has produced conflicting results with some findings showing positive correlations while others show

negative correlations (Gilley & Rasheed, 2000; Görzig & Stephan, 2002; Fritsch & Wullenweber, 2005; Barako & Gatere, 2008; Yu, 2010; Mohapatra, 2012, Muga, 2014). Owing to these contextual and empirical ambivalences, this study sought to establish the nexus that exists between business process outsourcing and performance of commercial banks in Kenya.

1.1.1 Organisational Performance

Organisational performance is a multidimensional construct that has been conceptualised in different ways owing to the varied views of organisations over the decades (Kaplan & Norton, 1996). In the 1950's, organisational performance was seen as the extent to which organisations, viewed as a social system, fulfilled their objectives (Georgopoulos & Tannenbaum, 1957). Later in the 1960's and 1970's, organisational performance was defined as an organisation's ability to exploit its environment to access and use its scarce resources (Yuchtman & Seashore, 1967). In the 1980's and 1990's, performance was defined in terms of accomplishing organisational goals (effectiveness) using minimum resources (efficiency) (Lusthaus & Adrien, 1998) with profit taking the central focus. In the 2000's, organisational performance is construed as a mix of financial and non-financial measures which provide information on the degree of achievement of objectives and results (Lebans & Euske 2006; Kaplan & Norton, 1992).

Another stream of defining organisational performance is informed by organisational composition whereby many organisations consist of numerous stakeholders with varied and oftentimes ambivalent needs and anticipations (Kurien & Qureshi, 2011; Odita & Bello, 2015), which have resulted to varying conceptualisations of organisational

performance. Islam, Khan, Obaidullah and Alan (2011) describe organisational performance as the ability of the organisation to create acceptable outcomes to various stakeholders while Tarabieh and Al-alak (2011) view organisational performance as the degree to which an organisation is capable of meeting its stakeholders' expectations and its own specific goals that sustain its existence. Richard (2009) describes organisational performance as the achievement of organisational goals and objectives. The common denominator of these definitions is the attainment of organisational objectives effectively and efficiently in order to fulfill their obligations to all their stakeholders.

Other than the challenge of converging at an agreeable definition, another area of concern in organisational-performance related studies is its measurement because there is no agreement on the measurement indicators among strategic management researchers and scholars (Santos & Binto, 2012). Most researchers tend to use financial metrics to measure corporate performance (Combs, Crook & Shook, 2005). However, financial measures only give historical data on organisational performance which may not accurately reflect the future performance of the organisation.

To remedy this shortcoming occasioned by financial measures, Zuriekat, Salameh and Alrawashdeh (2011) propose appropriation of both financial and non-financial indicators; a proposition supported by Kaplan and Norton (1996) who observe that organisations consistently invest in acquiring new capabilities and therefore their success (or failure) cannot be measured in the short-run by the traditional financial measures such as profit without taking organisational goals into consideration. This view is also shared by Cyert and March (1963) who indicated that the profit theory is no longer a valid measure of organisational performance

and neither are other approaches that only take the interests of shareholders (owners) of a company without considering other stakeholders. Pearson and Robinson (2002) also criticise the use of financial measures only as they give inadequate or inaccurate perspective of company status and its ability to keep improving. Consequently, they encourage that a company should relentlessly find new ways to improve and enhance its qualitative measures.

It is apparent that the hypercompetitive nature of organisations and the dynamism of the business environment compound the choice of performance measures for the contemporary managers (Kurien & Qureshi, 2011). Consequently, Stede, Chow and Lin (2006) opine that the new competitive environment necessitate the need for the soft non-financial measures of performance; a shared view by Lee and Nowell (2014) who argue that shortfalls in the use of financial measures call for incorporation of non-financial indicators to capture the soft performance aspects of the organisation such as customer, employee and supplier satisfaction. Waiganjo, Mukulu and Kahiri (2012) also vouch for broader performance constructs that incorporate aspects of non-financial measures such as effectiveness, efficiency, quality, and company image in addition to financial measures such as profits.

Therefore, to measure organisational performance of commercial banks, this study incorporated elements of both financial and non-financial measures. Financial performance was measured using firm-level financial ratios such as return on assets (ROA), return on equity (ROE) and net interest margin (NIM). This study considered the financial performance of commercial banks from year 2013 to 2016, the period marking the first term of the government elected after the promulgation of the new constitution in Kenya in 2010 and also following the new CBK monetary policy introduced in 2010 that aimed at keeping inflation

low, ensuring stable long-term interest rates and supporting economic development by facilitating the private sector access to credit (Okinyi, 2012; CBK, 2010). In addition, this was the period before the implementation of the interest rates capping regulation introduced by the Central Bank of Kenya on commercial banks in 2016; whose effect was expected to adversely affect lending rates and net interest margins as a consequence (CBK, 2016).

Review of commercial banks secondary data showed that in Kenya, the commercial banking sector financial ratios average ranges for the considered period 2013-2016 were as follows; ROA (0.1% - 4.5%), ROE (8% - 26%), NIM (5% - 12%) (AIB Capital Ltd, 2017; Cytonn Investments, 2017; Standard Investment Bank, 2016). Return on assets is a ratio of net income to total assets. It shows how a bank is efficiently using its assets to generate wealth/income. Higher ROA indicates more asset efficiency whereas lower ROA show asset inefficiency.

Return on equity is a measure of how efficiently commercial banks use shareholders' equity in generating wealth. Most analysts generally consider ROE in the range of 15% to 20% to be favourable for investment purposes. A higher return on equity indicates that a bank is effectively using the contributions of equity investors to generate additional profits and return the profits to investors at an attractive level. Net interest margin (NIM) is the difference between interest received and interest paid. It measures how successfully a bank is investing its funds in comparison to its expenses on the same investments. Positive NIM indicate that investment strategies earn more interest than they cost while negative NIM means that investment strategies cost more than they earn. Net interest margin is a key indicator of financial stability and therefore, the higher the NIM, the more profitable a commercial bank is.

The non-financial measures used in the study included customer satisfaction, employee satisfaction, service quality and cost efficiency. The choice of these measures was based on the fact that they had been used variously by prior studies relating BPO to performance of banks in different contexts (Barako & Gatere, 2008; Wang, L., Gwebu, Wang, J. & Zhu, 2008; Karr 2005; Nicolaou 2004; Jiang, Frazier & Hayes, Hunton & Reck, 2000; Ang & Straub, 1998).

To enable combined measurement of both financial and non-financial performance in commercial banks, the financial ratios of the surveyed periods were converted into Likert scale items following the recommendation of Gupta, Verma and Victorino (2006). To enable this conversion, averages of profitability ratios used in the study were established through review of secondary data. Respondents were then requested to rate the perceived level of contribution of BPO to financial performance of commercial banks.

1.1.2 Business Process Outsourcing

Business Process Outsourcing (hereinafter referred to as BPO) is a performance management strategy that is gaining traction in the commercial banking sector owing to challenges arising from a competitive and dynamic business environment. It involves outsourcing of a business process, where outsourcing means that the responsibility for performing the select business process once belonged to the outsourcing company and later handed over to a vendor, who receives a fee (Heijden, 2005). Thompson (2007) views BPO as a well thought-out decision to relinquish performance of some select value chain activities internally and handing them over to outside specialists or strategic allies while according to Tas and Sunder (2004), BPO entails contracting of the operations and responsibilities of specific business processes with the aim of

using the proficiency and resources of dedicated external service providers to execute processes that are non-core to the organisation.

Additionally, BPO involves business process management and outsourcing. Business process management utilises technology aimed at revamping the process, trimming down unnecessary steps, and eliminating redundancies. On the other hand, outsourcing uses proficiency and resources of dedicated vendors to execute non-core activities (Mclvor & Humphreys, 2000). Oftentimes, BPO is confused with contracting; however, there is a significant difference. Whereas contracting involves ownership or control of a business operation or process being contracted with the outsourcing company, in BPO, the control of the business process is with the third party. Therefore, business process outsourcing is considered as the handing over of part of select in-house operations to third party(s) who gain full control of the business operations/processes (Chartered Institute of Personnel Development, 2005).

Development trends of BPO as a management strategy to improve organisational performance show that the concept for a long time was confined to the manufacturing sector (Hätönen, 2008) because of the perceived difficulty in measuring business services (Harmon, Hensel & Lukes, 2006). Over the years, it was believed that whereas many manufacturing processes could be standardised and modularised, it was more difficult to standardise services processes, which increased the difficulty of developing effective performance measures for use in outsourcing arrangements.

However, the importance of effective performance management as an imperative in successful services outsourcing is acknowledged in the literature (Aron & Singh, 2005; Langfield-Smith

& Smith, 2003; Klaas, McClendon & Gainey, 2001). Furthermore, there is consensus in the literature on the need to provide the nexus between outsourcing and performance management with the business strategy of the organisation (Insinga & Werle, 2000; Quinn, 1999). Willcocks (2010) observes that in the contemporary dynamic business environment, BPO has permeated every industry and has emerged as one of the popular and widely adopted business strategies globally. Moreover, empirical research shows that the banking industry is second only to the manufacturing industry in the appropriation of BPO owing to its highly intensive technological nature (Dibberns, 2005).

Empirical research show that Kenyan commercial banks, both private and public, engage in business process outsourcing in their operations as a strategy to improve their competitiveness and overall performance (Awino & Mutua, 2014; Mukuna, 2014; Ghikas, 2012; King'ori, 2012; Barako & Gatere, 2008). A survey of commercial banks in Kenya revealed that banks outsource a number of non-core business processes such as information technology, human resource management; sales and marketing, customer service and financial; security, transportation, cleaning, legal, valuation reports, auctioneering, catering, maintenance, card production and repair, and printing services, among others. This study utilised four outsourced processes in a bid to establish the effect of BPO on organisational performance of commercial banks; information technology, human resource management, marketing and security. The choice of these variables was based on the results of the survey study and review of literature that showed that they were among the most outsourced processes. The four business processes are briefly described as hereunder:

Information Technology (IT) processes outsourcing is a strategic business practice whereby a client transfers the management of a business process, responsibility or decision rights to an IT products or services vendor (Wang, L., Gwebu, Wang, J., & Zhu, 2008; Barthélemy & Geyer 2005). This practice has grown drastically in the past two decades in the financial industry because of its IT-intensive business processes with organisations as well as commercial banks outsourcing IT functions ranging from infrastructure to software development, maintenance and support; data centre operations, help desk, software development, e-commerce, network operations, and disaster recovery services (Yu, 2010).

Human resource management processes outsourcing involves handing over of identified HRM processes to an external HR specialist, who then owns, manages and administers the selected processes based on defined and measurable performance metrics (Muga, 2014; Gupta, 1996). It presents the option of holding or releasing control of selected HRM processes based on whether a particular process is deemed a core business process within the HR department or not. Literature review shows the commonly outsourced HRM processes by organisations include recruitment, training and development, performance appraisal, payroll management, workers' compensation, benefit administration, administration of retirement plans, dispute resolution, safety inspection, record-keeping, benefit administration and legal compliance (Muga, 2014; Brown, 2010; Elmuti, 2003).

Marketing processes outsourcing describe the strategic decision taken by organisations to transfer part of their marketing processes to external vendors with the requisite marketing infrastructure, resources and capabilities in order to satisfy customer needs and wants most cost-effectively. Services-based literature places a strong emphasis on the importance of

service quality perceptions on the relationship between service quality and customer satisfaction (Taylor & Baker, 1994). To ensure customer satisfaction, commercial banks need improved customer knowledge, obtained through market research, to develop products and deliver services targeted at specific market segments which result in more directed marketing, sales and service tactics (Datamonitor, 2004). Review of literature shows that commercial banks outsource marketing processes such as corporate branding, promotion, public relations, marketing research, and customer service (Taylor & Baker, 1994; Alexander, 2012).

Security processes outsourcing entails handing over the management of certain security processes to specialist security agencies in order to benefit from their state-of-the-art security resources and capabilities in managing the complex contemporary security issues (Stevens, 2016; Ricci, 2006). Literature review shows that commercial banks outsource security processes such as premises guarding, installation and management of security infrastructure and cash management (Mimano, 2014; Machua, 2014).

1.1.3 Competitive Advantage

Competitive advantage refers to the leverage an organisation gains over other organisations in the same industry (competitors) through acquisition of superior attributes and resources (Porter, 1985; Chacarbaghi & Lynch, 1999); or developing superior core competencies through combination of organisational skills and resources (Prahalad & Hamel, 1990). Luo (2000) describes competitive advantage as capabilities mix; capabilities of possessing, allocating and upgrading distinctive resources.

Porter (1996) sees competitive advantage as a product of the value an organisation is able to create for its buyers that exceeds the cost of creating it while Kay (1993) views competitive advantage in terms of distinctive capabilities which are derived from characteristics that other organisations lack and which are also sustainable and appropriable. Alvord (2008) posits that organisations ought to continuously develop existing or acquire new resources and capabilities in response to changing market conditions in order to gain competitive advantages over their competitors. Such capabilities and resources can be acquired through massive internal investment or by training and developing human capital in-house. According to Mimano (2014), Machua (2014), and Ghikas (2012), competitive advantages can also be attained through BPO especially where an organisation lacks internal capacity to develop them or where it is not cost-effective in the long run to develop such capabilities or acquire critical resources.

Empirical research shows that organisations employ business outsourcing strategy in order to gain access to vendors pool of resources, skills, competencies, experience, networks and state-of-the-art technologies, which are sources of competitive advantage (Hamel & Prahalad, 1994; Greer, Youngblood & Gray, 1999; Handfield, 2006; Yang, Kim, Nam, & Min, 2007; McIvor, 2008; Barako & Gatere, 2008; Lee & Kim, 2010; Ghikas, 2012; Awino & Mutua, 2014). This means that competitive advantage is antecedent to performance and organisations, therefore, outsource business processes in order to gain leverage which eventually leads to sustainable performance. From the foregoing, competitive advantage in this study was deemed to play a mediating role on the relationship between BPO and performance. The study examined the following indicators of competitive advantage in a bid to establish whether they mediate the

relationship between BPO and performance of commercial banks in Kenya; access to superior resources, cost management and differentiation.

Superior resources refer to human resources; specialist skills, distinctive capabilities and technological resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Differentiation involves value addition and provision of unique products to customers. This is achieved through partnering with vendors with world-class capabilities that offer access to new technology, tools and techniques, structured methodologies, procedures and expanded skills to the outsourcing organisation. Cost management refers to the execution of business functions and processes using minimal resources such as finances, people and time thus resulting into efficiency and effectiveness (Kakabadse & Kakabadse, 2003).

1.1.4 Organisational Characteristics

Organisational characteristics are the attributes that largely influence an organisation's decision making as well as the strategies it chooses and appropriates in ensuring sustained performance. Whereas some prior studies may have found direct relationships between BPO and organisational performance, it is also probable that the relationships between BPO and organisational performance may differ among organisations as they may be contingent on characteristics of the organisation itself that moderates such relationships. Studies by Dean, Christopher and Bülent (2000); Mohd (2005); Wiklund and Shepherd (2005) reveal that organisational characteristics such as size, age, and ownership structure, among others, play a critical role in determining its overall performance.

Strategy and organisational theories have linked firm size to moderator influences on performance (Miller & Droge, 1986; Miller & Tolouse, 1986; Hall, 1987; Reinganum, 1985). In Kenya, the Central Bank classifies commercial banks mainly by size (tiers) as the main organisational characteristic (CBK, 2017). This study, therefore, presupposed that bank size, operationalised as the market share of a commercial bank and the number of branches, influences the management's decision on whether to outsource select business processes or not. In general, transaction cost economics theory would suggest that BPO by smaller banks should produce lower costs than when those activities are performed in-house because they lack the vendors' efficiencies that result from scale and experience effects. In addition, the resource-based view would suggest that the limited capabilities of smaller banks make it necessary for them to acquire resources from other organisations (Hadjimanolis, 2000). By relying on outsourcing, smaller banks can obtain the capabilities they need from vendors.

Organisation age; operationalised as the number of years an organisation has been in operation since it was founded is an important determinant of organisation dynamics. Past research shows that the probability of an organisation's growth, failure, and its variability of growth decreases as it ages. According to the life cycle effect, younger companies are more dynamic and more volatile in their growth experience than older companies (Evans, 1987; Yasuda, 2005). The significance of age with regard to organisational performance is seen in the context of the tacit or explicit knowledge that is acquired either as a by-product of day-to-day learning activities or because organisations invest in research and development, hire human capital, or train their employees (Loderer & Waelchli, 2010). Age also enable organisations, with time, to discover what they are good at (core competencies) that give them competitive advantage and

eventually superior performance (Jovanovic, 1982). Age was therefore presumed to influence outsourcing decisions in commercial banks.

Bank ownership structure in this study was operationalised as private or public, local or foreign. In Private Banks, majority of the shares are held by private people whereas in public sector banks, majority of the shares are held by the government and are listed on the stock exchange (Priyan, Vasanthakha, & Paveethiraa, 2015). Since commercial banks are profit-making institutions, they are guided by operational principles of efficiency and effectiveness. Consequently, they adopt or adapt more cost-effective management strategies such as BPO. The ease with which a commercial bank decides to outsource some of its processes was deemed to be influenced by its ownership structure.

1.1.5 Commercial Banks in Kenya

Commercial banks are financial institutions that are capable of accepting deposits, making business loans, and offering basic investment products. They are profit making financial institutions that play a significant role in the financial system of the country by providing a number of important financial and trading documents such as letters of credit, performance bonds, standby letters of credit, security underwriting commitments and various other types of balance sheet guarantees. In addition, they assume responsibility for safeguarding such documents and other valuables by providing safe deposit boxes. Relevant departments in larger commercial banks provide currency exchange services, provision of unit trusts and commercial insurance. In addition, they act as agents of monetary policy and the Central Bank of Kenya largely depends on them in effecting its monetary policy. The banks also contribute

a significant portion of the Country's GDP (Cytonn Investments, 2017; Machua, 2014; Khambata, 1996).

In performing the above functions, Kenyan commercial banks face many challenges; stiff competition from both local and international players, increasing operational expenses and increasing non-performing loans; rapid changes in technology that require them to continue improving their existing systems; dynamic and volatile business environments, among others. These challenges have collectively forced commercial banks to seek alternative strategies of enhancing their performance such as business process outsourcing (AIB Capital Ltd, 2017; Mukuna, 2014; Machua, 2014).

The Central Bank of Kenya Supervision Annual Report (2017) shows that by the close of year 2017, the banking sector comprised the Central Bank of Kenya, as the regulatory authority, 43 banking institutions (42 commercial banks and 1 mortgage finance company). Of the 43 banking institutions, 40 were privately owned; with 25 being locally owned while 15 were foreign-owned. The 25 locally owned institutions comprised 24 commercial banks and 1 mortgage financier whereas of the 15 foreign-owned institutions, 11 were local subsidiaries of foreign banks while 4 were branches of foreign banks (CBK, 2017).

Further, Kenyan commercial banks are classified into three tiers using a weighted composite index that comprises assets, deposits, capital, number of deposit accounts and loan accounts. As shown in appendix IV, a bank with a weighted composite index of 5 per cent and above is classified as a large bank; a medium bank has a weighted composite index of between 1 per cent and 5 per cent while a small bank has a weighted composite index of less than 1 per cent.

From these criteria, Kenya has eight (8) large banks, eleven (11) medium banks and twenty `one (21) small banks (CBK Annual Supervision Report, 2017).

1.2 Statement of the Problem

Despite the concerted efforts being made by commercial banks globally to regain their performance posture since the onset of the 2007-2008 financial meltdown, many continue to struggle to attain sustainable performance. In Kenya, performance of commercial banks is no different. The sector's asset quality deteriorated from 5.6% in 2014 to 12.3% in December 2017, annualised net interest margins (NIM) fell to 7.1% in 2017 from 8.9% in 2016, income declined by 3.12% in the period ended December 2017, while the sector recorded a decline of 9.6% in pre-tax profits. In 2017, Tier 1 (large) commercial banks' interest income declined by 9.7%, Tier 2 (medium) declined by 18% and Tier 3 (small) also declined by 18%. In 2017, listed commercial banks in the Nairobi Securities Exchange recorded a 13.8% decline in core earnings per share (EPS) compared to a growth of 15.5% in 2016. Moreover, rising operational costs have led to cost rationalisation measures such as staff lay-offs and closure of redundant branches while some commercial banks have been put under receivership or statutory management, acquired or liquidated due to liquidity problems (CBK, 2017).

Empirical literature review show that many commercial banks in different countries globally have appropriated business processes outsourcing strategy in a bid to manage costs, take advantage of the rich pool of specialised vendors' skills, experience and resources in order to gain leverage over competition (Datamonitor, 2004; Quinn & Hilmer, 1994). However, most of these banks are found in developed countries like the the US, UK, and emerging economies

like China, India, Malaysia and the Philippines, among others (Jain & Natarajan, 2011; Yu, 2010; Yang & Huang, 2010; Kumar, 2005) thus raising the need to establish BPO-performance relationship in commercial banks in a different context (in this case, Kenya). Related available empirical studies in Kenya were case studies (Muga, 2014; Ombasa, 2013; Ghikas, 2012; King'ori, 2012) further necessitating the need for a holistic study in the commercial banking sector as results of case studies are difficult to generalise.

Moreover, empirical review on studies linking business process outsourcing and organisational performance in the banking sector were found to produce conflicting results (Muga, 2014; Mohapatra, 2012; Barako & Gatere, 2008; Yu, 2010; Fritsch & Wullenweber, 2005) thus creating the need to establish the BPO-Bank performance relationship in Kenyan commercial banks. Literature review further showed that majority of studies linking BPO and organisational performance had been conducted in the manufacturing sector (Kimura, 2002; Görzig & Stephan, 2002; Gilley & Rasheed, 2000) thus motivating this study to focus on services based sector (commercial banking sector).

In terms of performance measurement in commercial banks, most reviewed studies had used financial measures only. Various researchers recommend that owing to the complex structure of modern organisations coupled with the expectations of various organisation stakeholders, it is more objective to measure organisational performance through the use of both financial and non-financial metrics (Nowell, 2014; Waiganjo, Mukulu & Kahiri, 2012; Zuriekat, Salameh & Alrawashdeh, 2011; Stede, Chow & Lin, 2006; Pearson & Robinson, 2002; Kaplan & Norton, 1996; Cyert & March, 1963); a recommendation adopted in this study.

While most of the empirical literature reviewed mainly focused on the direct relationship between BPO and organisational performance, a gap exists in showing whether competitive advantage has any mediating effect and also whether organisational characteristics have any moderating effect on the relationship between business process outsourcing and organisational performance of commercial banks respectively. Against the backdrop of these research gaps, this study sought to provide empirical evidence on the effect of business process outsourcing on organisational performance of commercial banks in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To establish the effect of business process outsourcing on organisational performance of commercial banks in Kenya.

1.3.2 Specific Objectives

(i) To determine the effect of outsourcing information technology processes on organisational performance of commercial banks in Kenya.

(ii) To examine the effect of outsourcing human resource management processes on organisational performance of commercial banks in Kenya.

(iii) To establish the effect of outsourcing marketing processes on organisational performance of commercial banks in Kenya.

(iv) To examine the effect of outsourcing security processes on organisational performance of commercial banks in Kenya.

(v) To assess the mediating effect of competitive advantage on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

(vi) To establish the moderating effect of organisational characteristics on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

1.3 Research Hypotheses

H_{01}: Outsourcing information technology processes has no significant effect on organisational performance of commercial banks in Kenya.

H_{02}: Outsourcing human resource management processes has no significant effect on organisational performance of commercial banks in Kenya.

H_{03}: Marketing processes outsourcing has no significant effect on organisational performance of commercial banks in Kenya.

H_{04}: Security processes outsourcing has no significant effect on organisational performance of commercial banks in Kenya.

H_{05}: Competitive advantage has no mediating effect on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

H_{06}: Organisational characteristics have no moderating effect on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

1.4 Significance of the Study

Research findings borne out of rigorous empirical study have both theoretical and practical significance and hence the focus of this section.

1.4.1 Theoretical Significance

The study findings provide theoretical contribution to the existing body of knowledge by showing the linkage between business process outsourcing and performance of commercial banks, the mediating role of competitive advantage on BPO-Bank performance relationship; and the moderating effect of organisational characteristics (bank size) on BPO-Bank performance relationship. Moreover, the study provides theoretical contribution by filling the gap between theoretical constructs and practical evidence of dimensions of business process outsourcing within the purview of the commercial banking sector in Kenya. The study also contributes to the seemingly limited volume of empirical research on the effect of BPO on organisational performance of commercial banks. In addition, the conceptual framework and empirical findings generated by the study contribute in developing new knowledge base which is bound to broaden the contextual understanding of business process outsourcing.

1.4.2 Practical Significance

The study findings are deemed crucial in helping the managers, chief executive officers, and the boards of directors in the commercial banking sector in decision making with regard to business process outsourcing as well as government agencies concerned with policy formulation concerning business process outsourcing decisions in the commercial banking sector in Kenya. Specifically, the study findings are crucial to the CBK as the regulating body in evaluating its policies on business process outsourcing in the commercial banking sector. In addition, the findings are important to vendors in identifying areas where there is client dissonance in order to proactively develop corrective measures and also identify specific industry requirements in the performance of certain business processes.

1.5 Scope of the Study

The principal focus of the study was on the effect of business processes outsourcing on organisational performance of commercial banks in Kenya and the mediating effect of competitive advantage as well as the moderating effect of organisational characteristics on the relationship between business process outsourcing and performance of commercial banks in Kenya. The study focused on the commercial banking sector only. A longitudinal study was conducted at the headquarters of all the commercial banks that met the inclusion criteria. The commercial banks were the unit of analysis while the managers in charge of Information Technology, Human Resource Management, Marketing and Operations at the headquarters were the units of observation since banks have a centralised organisational structure and all strategies are coordinated from the headquarters.

1.6 Limitations of the Study

The study was based on commercial banks thus leaving out other sectors of banking hence caution should be exercised when generalising the findings outside commercial banks. Lack of many related researches was an impediment in conducting critical literature review. Business process outsourcing strategy has not gained a lot of traction in developing countries especially in Africa where people are mainly engaged in primary production activities and also because of its small economies. Consequently, this impeded access to enough secondary materials from developing countries in Africa and more specifically Kenya for comparability. In addition, accessing published materials from commercial banks that were not listed on the Nairobi Securities Exchange was also a monumental challenge. However, this limitation was

mitigated through empirical review of prior related studies in Kenya as well as other geographical contexts.

1.7 Organisation of the Study

The thesis is organised into five chapters as follows; Chapter one comprised background to the study, statement of the problem, objectives, hypotheses, significance, scope, and limitations of the study. Chapter two consisted of theoretical and empirical literature reviews, summary of empirical gaps, and the conceptual framework. Chapter three comprised research methodology; research philosophy, research design, empirical model, target population, sampling design and procedure, sample size, data collection methods, data collection procedure, data analysis and presentation, and ethical considerations. Chapter dealt with empirical findings and discussions. Chapter five comprised summary, conclusions, contribution of the study to knowledge, recommendations for policy, practice and theory; and suggestions for further areas of research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of theoretical and empirical literature relating to study objectives. The chapter discusses the main theories that were used to develop the conceptual framework for the research; followed by review of specific literature on the main study variables and finally the summary of the research gaps.

2.2 Review of Theoretical Literature

This study was modelled on five theories deemed critical to provide theoretical underpinning; the Transaction Cost Economic theory (TCE), the Resource Based View (RBV), Dynamic Capabilities theory, Core Competence theory and the Balanced Scorecard (BSC) model.

2.2.1 Transaction Cost Economics Theory

Transaction Cost Economics theory (hereinafter referred to as TCE); was first proposed by Coase (1937) and later formalised by Williamson in 1975. This theory was specifically designed to explain the governance decisions of organisations and the efficient boundaries of the firm (Kim & Mahoney, 2005; Poppo & Zenger, 1998; Williamson, 1975). Coase (1937) observed that firms and markets are alternative governance structures that differ in their transaction costs and emphasised that under certain conditions, the cost of conducting economic exchange in the market is higher than conducting the same transaction within the firm. He opined that transaction costs comprise costs of running the system, ex ante costs such as drafting and negotiating contracts; ex post costs such as monitoring and enforcing

agreements; and costs incurred in making an economic exchange which are over and beyond the price of the product or service procured. Such costs may arise from information asymmetry, bounded rationality, opportunism as well as activities such as evaluating suppliers, negotiation, and control function (Picot, 1991).

Transaction Cost Economics focuses on the level of a firm and it is crucial in understanding corporate governance and firm boundary decisions regarding suppliers, outsourcing, mergers and acquisitions; and coordination between firms such as alliances or contractual agreements. According to TCE theory, the transaction may be said to occur when a good or service is traded across a technologically separable interface (Williamson, 1993). Furthermore, TCE views organisations as economic actors using the most efficient mechanism for transactions (Williamson, 1981). It posits that there are costs in using a market. By making its own inputs, a firm gains economies of scale and avoids transaction costs. However, as the grows and increases in size, it is bound to require increased internal co-ordination which might increase its own operational costs (Grover, Cheon & Teng, 1996).

Depending on the transaction costs involved, a firm may opt to carry out its business processes in-house or outsource some of them. If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale. It would however take advantage of the economies of scale and scope of the vendor while at the same time reducing internal coordination costs. Nevertheless, the firm that outsources will increase its external co-ordination costs which increases or decreases depending on the level of asset specificity (Grover et al., 1996).

Based on the postulations of the theory, it can be deduced that firms replace market transactions whenever the attendant costs can be avoided (Coase, 1937; Williamson, 1975). Therefore, all processes that are deemed complex, involve uncertainty and information asymmetry, should be subjected to in-sourcing, given that costs can be lowered below the market costs. On the flipside, it implies that outsourcing of processes theoretically takes place when the costs of performing them internally are higher than when conducting a market transaction. Therefore, when making outsourcing decisions, it is imperative to consider the related costs incurred in making contract agreements vis-a-vis the costs of performing them internally.

However, despite the extensive application of TCE theory in outsourcing decisions, it has been criticised for its several shortcomings. Lacity and Willcocks (1995) found that the original mapping to the TCE framework only explained few IT sourcing decisions and generated many anomalies in their sample. TCE has also been found to rely on a single transaction as a unit of analysis thus neglecting the contemporary industrial collaborative arrangements. In addition, TCE is static and consequently fails to correspond to the dynamism and volatility of current business environment. Owing to the foregoing, it is imperative for organisations to consider frameworks that allow for flexibility in responding to business environment dynamism and efficient management of costs associated with business transactions.

2.2.2 The Resource-Based View

While the Resource-Based View within the field of Strategic Management was named by Wernerfelt (1984), its origins can be traced back to earlier research. Retrospectively, its elements can be found in the works of Coase (1937), Selznick (1957), Penrose (1959), Stigler

(1961), Chandler (1962, 1977), and Williamson (1975), where emphasis was put on the importance of resources and their implications for firm performance (Conner, 1991; Rumelt, 1984; Mahoney & Pandian, 1992; Rugman & Verbeke, 2002). However, this theory flourished during the 1990's following the work of Barney (1991) and it has since become one of the dominant contemporary approaches to the analysis of competitive advantage (Briduox, 2004).

Resource-based theory has been used to provide effectiveness-based explanation for outsourcing by considering the resources and capabilities of the firm as the source of sustainable competitive advantage (Grover & Cheon, 1996; Lacity, 1998; Barney, 1991). However, competitive advantage is gained through resources that are valuable, rare, imperfectly imitable, and without strategically equivalent substitutes (Gilley, McGee & Rasheed, 2004; Mata, Fuerst, & Barney, 1995). Moreover, RBV is concerned with the connection between internal resources, strategy and the performance of the organisation (Kiiru, 2015). It focuses on the promotion of sustainable competitive advantage through owning or acquiring strategic resources (human, physical, technological and organisational) and dynamic capabilities.

However, creation of these capabilities is not easy and not all the firms can possess them for various reasons. First, creating capabilities may depend on certain historical advantage that is no longer available; second, certain capabilities may be path dependent thus requiring long-term learning process; third, capability may be embedded in the complexities of social factors such as reputation, culture and trustworthiness of the firm; fourth, capabilities of the firm can be causally ambiguous which cause difficulty in creating them. Considering these factors, a firm may not easily create these capabilities by itself (Barney, 1991) and might resort to BPO.

Various researchers have provided linkage between Resource Based View and BPO. Espino-Rodriguez and Padron-Robaina (2006) observe that RBV is a powerful theoretical tool for explaining outsourcing relations. Organisations outsource various business processes such as information technology (Wang, L., Gwebu, Wang, J., & Zhu (2008); Cheng, Lai & Yeung, 2008); human resources (Gilley, Greer & Rasheed, 2004); marketing (Chumba, Chepkwony & Tum, 2015; Alexander, 2012); security (Stevens, 2016; Mimano 2014). Others include transportation, cleaning, legal, valuation reports, auctioneering, catering, maintenance, card production and repair, and printing services, among others (Awino & Mutua, 2014; Ghikas, 2012; King'ori, 2012).

Following the postulates of RBV, organisations engage in BPO in order to gain leverage over their competitors. The sources of competitive advantage accrue from the fact that BPO helps organisations to concentrate on their core business, minimise workload, attain financial economies, access new technologies and specialised expertise; and ability to demand measurable and improved service levels (Greer *et al*., 1999; Yang *et al*., 2007; McIvor, 2008; Lee & Kim, 2010).

However, the concomitant benefits of RBV notwithstanding, it has been criticised for lacking sufficient focus on how and why certain firms have competitive advantage in situations of rapid and unpredictable change (Eisenhardt & Martin, 2000); and for overlooking the managerial coordinative processes by which firms assemble and leverage knowledge assets. In response, strategy researchers have offered an extension of the RBV in the form of a Dynamic Capabilities View of competitive strategy (Kogut & Zander, 1992); which enables managers

to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece, Pisano & Shuen, 1997).

2.2.3 Dynamic Capabilities Theory

The main proponents of this theory are Teece and Pisano (1990, 1994). They explained that the RBV was not able to provide explanations as to how some successful firms demonstrated timely responsiveness and rapid flexible product innovation, along with the management capability to effectively coordinate and redeploy internal and external competences. Their 1990 and 1994 works were then elaborated in Teece, Pisano and Shuen (1997) when they explicitly argued how the dynamic capability view could overcome the limitations of the RBV by integrating, building, and reconfiguring internal and external competences to address rapidly changing environments.

Research has shown that the organisations that are successful in the competitive market are the ones that can respond to changing environmental conditions. This view points out the important role of strategic management in adaptation, integration and reconfiguration of skills as well as resources and processes in an organisation. This objective can be achieved through developing such competencies and processes in-house or by outsourcing them (Teece *et al*. 1997). When resource-based view is compared with the dynamic capability approach, it is observed that resource-based view focuses on resources whereas dynamic capability framework considers processes (Eisenhardt & Martin, 2000). According to dynamic capability framework, processes are the ways things are performed. Therefore, they are related to concepts such as knowledge sharing routines, learning, coordination, integration and

reconfiguration; which constitute a critical component in sustaining organisational performance.

Dynamic capability framework does not only examine asset specificity as the sole determinant of competitive advantage but also considers the dynamic processes that are in force to exploit these resources in an integrated and coordinated way. According to this view, knowledge sharing routines, best practices and complementary resources will result not only in valuable outcomes but also the flexibilities in those processes will determine how the firm adapts to changing environments. The unique combination of these resources through coordinated processes generate outcomes that are difficult to imitate thus providing sustained competitive advantage for the firm (Teece *et al*., 1997).

The need for dynamic capabilities to address firm performance arises in the context of changes in the global business environment. Researchers have established that improved changes in the abilities of an organisation to cope with the ever changing business environment may reflect positive effects on the performance of the firm (Judge, Naoumova & Douglas, 2009). Commercial banks have not been spared by the effects of the volatility of the macro-environment. Consequently, they are resorting to business process outsourcing as a strategy to give them the necessary flexibility in areas like marketing, information technology, human resource management and security management, among others, to help them cope with the environmental dynamism cost-effectively.

2.2.4 Core Competence Theory

The Core Competence theory was developed by Prahalad and Hamel (1990). They posit that core competencies are the collective learning in the organisations, especially how to coordinate diverse production skills and integrate multiple streams of technologies. Other conceptualisations of core competencies by different scholars include; capabilities that differentiate a firm from its milieu (Leonard-Barton, 2000); unique capabilities which usually span multiple products or markets (Hafeez, Zhang & Malak, 2002); communication, involvement, and a deep commitment to working across organisational boundaries (Gupta, Woodside, Dubelaar & Bradmore, 2009). Ljungquist (2008) observes that core competences were originally invented as a tool for justifying business diversification in large companies and for supporting internal processes such as product development.

Scholars have acknowledged the importance of the concept by advancing it in multiple directions: connecting it to conceptual notions of learning (Lei, Hitt & Bettis. 1996), proposing core competence models to sustain competitive advantage (Hafeez et al., 2002), building on the concept's basic notions to invent similar concepts (Sanchez & Heene, 1997; Sanchez, 2004), and by developing processes for its identification (Javidan, 1998). The importance of the concept is also acknowledged when testing the implementation of core competence as a competitive strategy (Clark, 2000).

The proponents of the theory view core competences as capabilities that are central to a firm's value generating activities; assets and skills that are knowledge-based, distinctive, firm-specific and difficult to imitate as they can be formed by using the tangible and intangible

value generating resources (Hamel & Prahalad, 1994). They further argue that core competences are those which allow firms a superior advantage and therefore, for competence to be considered "core", it must meet three criteria: Customer value; that is, a core competence must make a significant contribution to customer perceived value; Competitor differentiation; that is, it must guarantee that the firm's level of competence is superior to all its competitors and should be difficult to imitate; Extendibility: meaning that the competence must be capable of being applied to new product arenas.

From the foregoing, it is deducible that for any organisation to be competent, it must possess certain internal strengths that give it leverage over competition. It can further be argued that leverage for organisations emanate from their ability to concentrate on their core business that enables them to exploit their core competencies. Therefore, it is incumbent on organisation management teams to map out their core business and areas of core competence. Moreover, organisations ought to identify their non-core business processes and plan on how to manage them efficiently in a bid to remain competitive. One of the contemporary strategies being utilised by organisations in dealing with their non-core business processes is outsourcing them. Through business process outsourcing, the management teams and workers of organisations are able to concentrate on what they are best at and hand over non-core functions to outside specialist vendors. Ljungquist (2007) posits that core competences enable the firm to enter new markets and products developed from them could be used to a larger extent by the company. They are the basis of a firm's competitiveness which eventually leads to sustainable performance. Core competence theory suggests that activities should be performed either in-house or by suppliers. Prahalad and Hamel (1990) opine that activities which are not core should be considered for outsourcing with best-in-the-world suppliers.

In the commercial banking sector, the focus has changed from owning the assets to developing strategic partnerships with other private sector players to protect and enhance the value of the asset (Adeoti, 2005, Barako & Gatere, 2008, Yu, 2010). Furthermore, the need for commercial banks to improve performance through cost efficiency appropriation measures means that they ought to exploit their core competencies and outsource processes in which they lack such unique competencies. Therefore, outsourcing of business processes will continue to be important as such arrangements place responsibilities, for example, for IT, logistics or production functions, HR, and marketing among others in the hands of the competent vendors most capable of performing them successfully (Chandra & Kumar, 2000).

However, it is imperative to assess the transaction costs involved in order to determine the cost-effectiveness of outsourcing processes that the organisation considers to be non-core. Moreover, a thorough assessment of opportunity costs is crucial in determining whether the advantages of outsourcing certain business processes outweigh those of performing them in-house. It can be argued that when the organisation outsources certain processes in order to concentrate on its core business, it also stands to lose in a number of ways: the learning curve effect is lost; it fails to develop capacity to handle certain processes in-house and may face monumental challenges in case of emergencies. It has been observed that in some instances, the transactional costs of outsourcing some business processes could be higher in the long-run than those incurred by performing them in-house.

2.2.4 The Balanced Scorecard Model

The balanced scorecard was developed by Kaplan and Norton (1992) to address the inadequacies of the organisational performance measures that only focused on financial

measures. It is a strategic planning and management tool that is used widely in business and industry, government, and non-profit organisations worldwide to align business activities to the vision and strategy of the organisation, improve internal and external communications, and monitor organisational performance against strategic goals. Its proponents argue that measurement of performance in the contemporary dynamic business environment can not only be measured by traditional financial metrics but require a combination of various business aspects that provide holistic performance assessment.

Antagonists of the traditional financial methods of measuring organisational performance criticise them for their well-documented inadequacies, their backward looking focus, and their inability to reflect contemporary value-creating actions. They further contend that the terms of competition have changed and that financial measures do not improve customer satisfaction, quality, cycle time, and employee motivation. These arguments are supported by the proponents of the BSC who opine that they are inadequate for guiding and evaluating the journey that the information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology and innovation. As a consequence, the BSC is predicated on a combination of different organisational variables (Kaplan & Norton, 1992).

The BSC is hinged on two types of performance indicators: leading and lagging indicators. The leading indicators measure activities that have a significant effect on future performance. They include customer perspective, internal business processes perspective and innovation, learning and growth (employee) perspective. On the other hand, lagging indicators measure the output of past or historical activities and they include the financial perspective. Leading

indicators are more powerful measures because they give managers more time to influence performance outcomes. The BSC links these performance indicators to depict holistic organisational performance elements as shown in Figure 2.1 below:

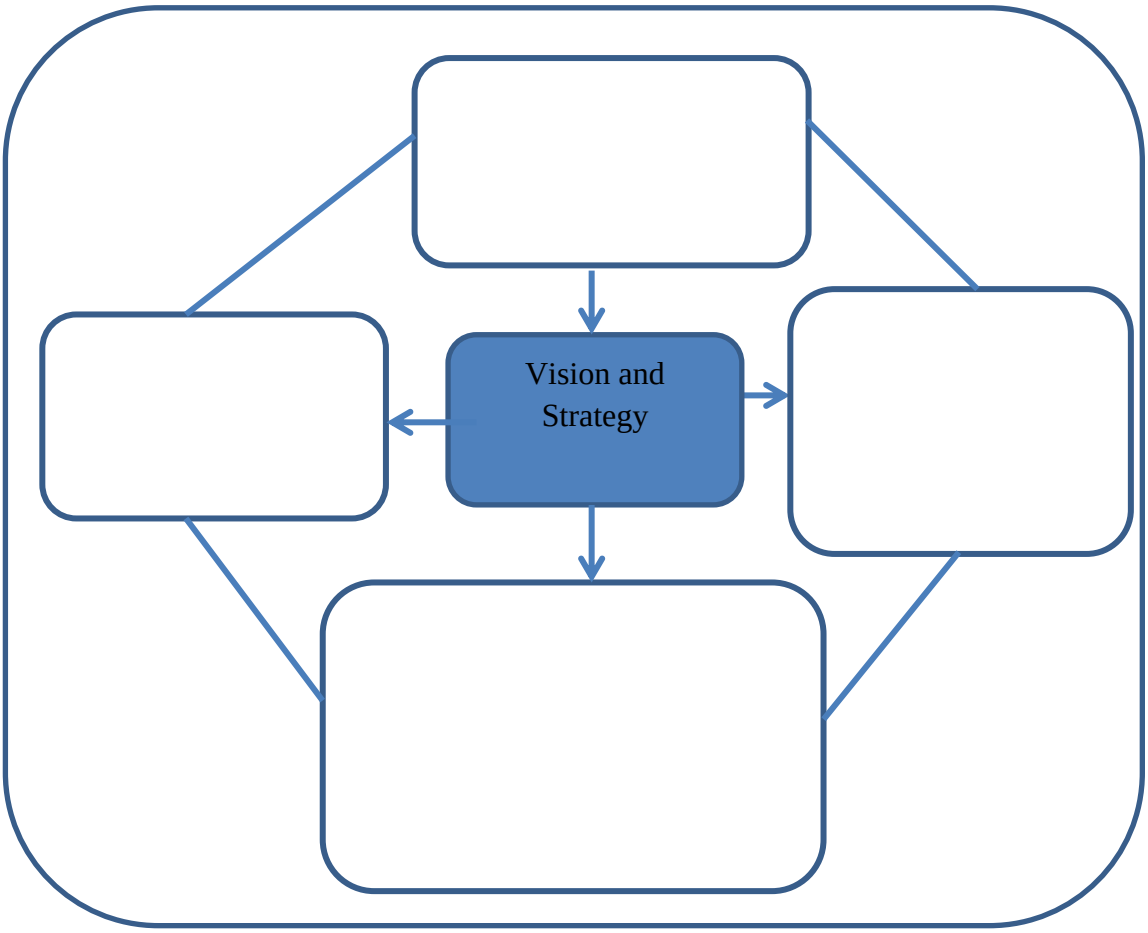

Figure 2. 1 : Balanced Scorecard Model
Adapted from Kaplan and Norton (1992)

The BSC therefore provides a framework for performance goal-setting in four categories; financial (shareholders' value, profits), customer (satisfaction, retention, market share), internal business processes (innovation, strategic capabilities and efficiencies) and learning and growth (systems that improve employee satisfaction and productivity) in a bid to

overcome the sole reliance on financial performance (Horngren, Foster, Datar & Gowing, 2010). The four measures are further discussed as hereunder:

Financial measures convey the economic consequences for the actions already taken by the organisation and focus on the profitability-related measures on which the shareholders verify the profitability of their investment. Therefore, under this perspective, managers are required to generate measures that answer the following question: To succeed financially, how should we appear to our shareholders? Kaplan and Norton acknowledge the need for traditional financial data as the provision of the right and timely financial data to the right person in the organisation helps much in the process of making the right decisions in the right moment. Under this perspective the most common performance measures incorporated are: ROI, ROA, ROE, cash flow, net operating income, and revenue growth.

The customer perspective provides a view on how customers perceive the organisation and it is considered the central element of any business strategy that provides the unique mix of products, price, relationships, and image that the company offers to its customers. In this perspective, the organisation should demonstrate how it differentiates itself from the competitors by retaining, attracting, and sustaining relationships with its targeted customers. Therefore, managers are required to generate measures to answer the following question: To achieve our vision, how should we appear to our customers? Typical measures used under this perspective include but not limited to customer satisfaction, new customer attraction, customer retention, customer complaints, and sales from new product.

Internal business processes perspective provides the organisation with the means by which performance expectations may be accomplished. Managers are therefore required to provide

measures that answer the following question: To satisfy our customers and shareholders, what business processes must we excel at? The central theme of this perspective therefore is the results of the internal business processes which lead to financial success and satisfied customers. Typically the measures of this perspective are based on producing goods and services in the most efficient and effective methods. The commonly used measures for this perspective include but not limited to process innovation, strategic capabilities and efficiencies, cost of quality, cost of non-conformance and time savings.

Learning and growth perspective measures the extent to which the organisation seeks to provide its employees with opportunities to grow and learn in their domain. Under this perspective, managers should identify measures to answer the following question: To achieve our vision, how will we sustain our ability to change and improve? Kaplan and Norton, the proponents of the BSC, acknowledge that the learning and growth measures are the most difficult to select. Consequently, they suggest the following measures; employee empowerment, employee motivation, employee capabilities, systems that improve employee productivity and information systems capabilities.

Therefore, following the import of the balanced scorecard, the study adopted some of its elements in the analysis and measurement of organisational performance in commercial banks to provide a holistic performance measure in the sector under study. In particular, the study sought to establish whether business process outsourcing positively affected return on assets, return on equity and net interest margin (financial measures) and customer satisfaction, employee satisfaction, cost management and service quality (non-financial measures).

2.3 Review of Empirical Literature

2.3.1 Information Technology Outsourcing and Organisational Performance

An empirical study by Yu (2010) on 'The relationship between IT outsourcing and firm performance in the banking industry' that used the mean comparison method and the statistical regression model to analyse the effect of IT outsourcing on performance using objective accounting measures such as return on assets (ROA), return on equity (ROE), return on investment (ROI) and net interest margin (NIM) as firm-level performance measures concluded that IT outsourcing does not enhance firm performance of banks. This finding concurs with that of Barako and Gatere (2008) that found bank performance measured as Return on Assets and ratio of Non-Performing Loans (NPL) was not statistically associated with outsourcing decisions. Similarly, banks' wage bill and total operational expenses were not significant determinants of outsourcing. However, (Yu, 2010) observes that IT outsourcing may not have significant impact on firm performance using accounting-based financial measures, but when using more sophisticated performance measurement systems such as the Balanced Scorecard (BSC) and Skandia Navigator, which includes both accounting measures as well as other soft measures, one might find that IT outsourcing actually have significant positive influence on firm performance as a whole.

A case study carried out by Baldwin and Iran (2011) in a UK bank that explored the underlying motives and decision-making process that influenced the bank to outsource its IT/IS functions established that political perspectives, as well as human and organisational factors influenced the bank's strategic decision-making to outsource certain aspects of its business. In addition, findings of the case study suggested that cost alone is not always

responsible for decisions to outsource, as it was found the bank's outsourcing decision was driven by a series of complex, interrelated motives in a bid to reduce the risks and uncertainties of managing its own technology. Use of a case study is mainly good when solutions to internal organisational processes are being sought. However, generalisations of case study findings are difficult owing to the unique configuration of different organisations.

Suuman and Jain (2011) analysed 'The role of information technology on the performance of the banking industry in Malaysia' and found that technological innovations and outsourcing services have enabled the industry to open up new delivery; taking the help of IT to deal with the channels. The study concluded that improved policy reforms in the banking sector have tremendously changed like enhancing payments system, integrating regulations between commercial & co-operative banks and finds that there is a positive effect of IT outsourcing on performance of banks.

The study by Wang *et al.* (2008) on 'The impact of IT outsourcing on firm performance' that studied a sample of 120 companies with IT outsourcing arrangement from 1993 to 2003 established that IT outsourcing firms had significantly higher selling, general and advertising expenses/net sales (SGAS) and significant lower return on assets (ROA) compared with the non-outsourcing counterparts in year t+1 (one year after IT outsourcing) but there was no significant difference in ROA, ROE and ROI.

Literature review established that the existing empirical studies concerning IT outsourcing in the banking industry focused mainly on the determinants (drivers) and the risks of IT outsourcing. The research methodologies are either case study or surveys. None of these

studies examines the IT outsourcing effect on organisational level performance. Moreover, while studies recognise the role of outsourcing, a major focus has been on the developed economies such as Japan, USA, UK and Canada (Yu, 2010; Baldwin & Iran, 2011). Extant researches on the effect of outsourcing on performance in the African context are very few. These research gaps formed the basis for the need to establish the effect of IT outsourcing on Kenyan commercial banks, which is a country in Africa.

2.3.2 Human Resource Management Outsourcing and Organisational Performance

A study by Muga (2014) on 'The effect of HR outsourcing on performance of Kenya Commercial Bank in Kenya' found that HR outsourcing led to cost efficiency, freeing up human resource to concentrate on core functions and access to expert HR services. The study also found that the Kenya Commercial Bank mainly outsources information technology, human resource management, marketing, security, catering, cleaning, and valuation functions to outside vendors. The study concluded that HR outsourcing gives the bank competitive advantage, which eventually leads to improved performance.

However, Mohapatra's (2012) study on 'The managerial motivations behind outsourcing practices in human resource management in the Indian banking sector' and their effect on performance found that majority of the managers (respondents) who participated in the study did not feel that HR outsourcing had an overall benefit for the banks. The study also found that cost savings and access to technology were not significant motivators for HR outsourcing in Indian banks. However, the study is limited to the extent that its focus is on the banking sector of a specific country (India).

Given the rapid changes taking place globally in the banking and financial sector, it's important to analyse the Kenyan context. Secondly, a study in the Kenyan context would approve or disapprove of the afore-mentioned findings which appear to be contrary to the motivating factors for outsourcing. It is also critical to note that the findings of Mohapatra's study contradicts the findings of Muga (2014) that showed a positive relationship between outsourcing HR processes and performance of Kenya Commercial Bank. Suffice to mention that Muga's study, though conducted in Kenya, is deficient in the generalisation of the findings since it was a case study of only one Kenyan bank (Kenya Commercial Bank Ltd.).

Gilley, Greer and Rasheed (2004) studied HRO and organisational performance in manufacturing firms. Their study included results from 94 firms and sought measures of financial and innovation performance. The findings provided modest evidence that outsourcing training and payroll was associated with measures of organisational performance. When firm size, measured by the number of employees, was added to their model as a moderator the association disappeared (Gilley *et al.*, 2004). A study by Galanaki and Papalexandris (2005) established that the HR processes most commonly outsourced fall into one of the following categories: recruitment and selection, training and development, pay and benefits, mergers and outplacement, performance appraisal systems, and HR planning. This finding provided the basis for the selection of the indicators under human resource management outsourcing in this study.

Another study by Mahmud (2012) on 'The state of outsourcing of Human Resource functions at the telecommunications sector' attempted to identify environmental and organisational characteristics that affect HR department performance and how HR outsourcing mediates that

relationship in a service organisation like telecommunication sector. Secondary data were collected by consulting various documents, such as Office-Order; Financial manuals, Accounts manual, Annual Reports, Employee profile, Employee database prepared by Human Resource Department, and relevant Journals. Judgmental sampling procedure was used to select the sample units from Human resources division officers of different companies of telecommunication sector.

Ibid (2012) study established that recruitment and selection were ranked first according to the importance to the organisation, followed by appraisal, strategic HR planning, and training and development. The reasons for outsourcing HR functions included improvement in quality, saving time and special competence in addition to the efforts to save money. In contrast, the most frequent reasons of not outsourcing HR functions were self-sufficient HR departments of the organisations, conflict with internal practices, and unsatisfactory quality of service and cost of service. The study recommended training and development as well as recruiting as amongst the most demanding services for the organisations studied. This study therefore utilises these constructs in a bid to establish the effect of outsourcing HR functions on performance in the Kenyan commercial banking sector.

2.3.3 Marketing Processes Outsourcing and Organisational Performance

Results of an empirical study by Chumba, Chepkwony and Tum (2015) on 'The effect of outsourcing marketing services on performance of manufacturing companies' gave a Pearson's Correlation Coefficient value of 0.581of outsourced marketing activities which was significant at $\alpha = 0.01$. These results showed that outsourced marketing activities contribute

58.1% of the change in performance thus affirming that outsourced marketing activities have a positive and significant effect on firm performance.

Alexander (2012) examined outsourcing marketing functions in Cluj-Napoca with the aim of establishing perceptions and use of public relations (PR) services outsourcing by the economic operators in the city of Cluj-Napoca. The study was based on mixed methods, in which data were collected and analysed by using quantitative and qualitative tools. The study findings revealed that local operators were involved heavily in public relations activities such as: communication with business partners, marketing and brand communication, and media communication. It established that companies still choose to outsource PR services owing to lack of specialists. The study concluded that outsourcing PR services enables companies to improve their public relations activities and to obtain certain benefits and hence a positive relationship exists between outsourcing of public relations services and performance. The research findings notwithstanding, contextualisation of the study is important in order to compare the results from different study contexts.

Gannon's (2010) study on 'Outsourcing of marketing functions for Small and Medium Enterprises (SMEs)' aimed at examining the tools that companies use when making a decision to outsource key areas of their business; the motivating factors to outsource and the implications for companies who outsource marketing functions. The research was a case study and relied on qualitative approach using interview schedules. The study established that the effect of strategic evaluation on an outsourcing operation was found to be indirect rather than direct and concluded that outsourcing of marketing services for SMEs and Medium Enterprises did not have a positive direct effect on their performance. The study was

conducted in a different sector. Therefore it would be interesting to examine how results from a different sector such as banking would compare with results from the SME sector.

Klaas, McClendon, and Gainey (2001) have also observed that marketing outsourcing has evolved into a viable business solution for any organisation serious about improving its market position, reducing costs, and improving overall quality. This is because it allows such organisations to gain new knowledge, access new markets, establish traction in the industry, reduce the threats and barriers of competition, enhance resource efficiency, and acquire new skills. Outsourcing can also free up valuable resources that, in turn, allow for crucial resource reallocation toward core business activities to better serve organisational goals (Burden & Li, 2005) while providing greater access to leading-edge technology and limiting the focus to core competencies. This strategic management process is informed by the core competencies theory (Prahalad & Hamel, 1990) which suggests that certain business activities should be performed either internally or by suppliers.

2.3.4 Security Processes Outsourcing and Organisational Performance

An empirical study by Mimano (2014) on 'The effect of outsourcing of cash management services on performance of commercial banks in Kenya' found a strong statistically significant positive relationship (R^2= 66.5%). The study established that outsourcing this function frees the management of the responsibility of planning especially money transfer logistics and its security. That way, they are able to concentrate on their primary/core duties thus enhancing their productivity.

Machua's (2014) study that involved a 'Survey of outsourcing strategies, outsourced functions and challenges of outsourcing strategy among all the Kenyan commercial banks' established that commercial banks in Kenya mainly outsource both critical non-core processes such as IT, HRM, and marketing and non-critical non-core processes such as security, transport, cleaning and catering. The study found that these processes were positively correlated with performance. However, her study did not put rigour in linking specific outsourcing processes with performance and hence the thrust of this study in attempting to establish the relationship between outsourcing of security services and performance of commercial banks in Kenya.

Stevens (2016) and Ricci (2006) observe that organisations outsource security processes in order to allow them to focus on their core functions. They also stress that more and more businesses are outsourcing private companies to help them with their security guard needs for reasons such as transferring some of the liability risk to the security guard company, getting world-class security at a fraction of the price it would cost an organisation to do it by itself because private security guard companies handle the start-up costs associated with hiring security guards as well as purchasing equipment and uniforms. Moreover, security guard outsourcing helps to increase an organisation's financial flexibility by investing more into what's most important for the business, improves human resources workflow because they will not take on the additional responsibilities that come with more employees, and increased productivity because there is no longer any serious committing large amounts of money and resources to security.

2.3.5 Competitive Advantage and Organisational Performance

Clarioni and Giustiniano (2011) empirical study (longitudinal; year 2000 – 2009) sought to establish the impact of business process outsourcing in eighty four (84) companies spread across all the continents. The study found that outsourcing gives companies competitive advantages that enhance their performance. The study found that outsourcing enables organisations to gain access to superior resources, both financial and human; specialist skills, and state-of-the-art technology thus improving service quality, efficiency and effectiveness.

Ibid (2011) also found that outsourcing saves the staff and especially the management team a lot of time that would have been spent on planning and other logistical issues thus enabling them to concentrate on their core business. This was seen to increase overall productivity of the workforce. However, the study also established that outsourcing doesn't necessarily lead to cost reduction as is expected in many outsourcing arrangements. The study concluded that outsourcing is a growth-oriented strategy and not a mere means of cost reduction as alleged by most accredited literature and research findings.

Mugi's (2011) study on 'Business process outsourcing strategy and competitive advantage in commercial banks in Kenya' found that commercial banks derive various competitive advantages from outsourcing their non-core business processes. These competitive advantages include but not limited to the ability of management to focus on the core business of the bank, flexibility, saving time spent on supervision, allowing access to expert skills and superior resources, both human and technological that result to positive performance outcomes.

The findings from a study on auditing companies in the US by Lacity, Feeny and Willcocks (2004) revealed that global outsourcing of back office services produced competitive advantages ranging from improvements in back office efficiency, access to supplier resources and capabilities, and increased flexibility by ramping staff up and down to match fluctuating demand. Additionally, the findings of a study by Kakabadse and Kakabadse (2003) which surveyed IT companies in Malaysia also found that outsourcing non-core processes was aimed at reducing costs and building competitive advantage.

From the foregoing empirical literature, it can be observed that business process outsourcing enables corporations to remain competitive by giving them access to a rich pool of world-class resources that are provided by specialised vendors. In addition, partnering with vendors with world-class capabilities provides access to new technology, tools and techniques; more structured methodologies, procedures and documentation; and expanded skills that help organisations to offer unique products cost-effectively. However, Udo (2000) study on 'IT outsourcing decisions' concluded that although business process outsourcing is related to improving a firm's competitive position in today's business environment, the amount of business processes outsourced by a company is not linearly related to competitiveness.

The findings from the above literature review that link competitive advantage to performance are supported by Al-Rousan and Qawasmeh (2009) who observe that organisations the world over are using the BPO strategy to gain competitive advantages to deal with the rapid changes that firms face today, the complexity of the business environment, the impacts of globalisation and unstructured markets, the ever changing consumer needs, competition, the revolution of information technology and communications, and the liberation of global trade. The same

findings are supported by Porter (1985) as well as Reed and Defillippi (1990) also note that competitive advantage is a strategic goal for any organisation that can be construed as a dependent variable because good performance is related to achieving a competitive advantage.

2.3.6 Organisational Characteristics and Organisational Performance

An empirical study by Kisengo and Kombo (2014) on 'The effect of firm characteristics on performance of the microfinance sector in Nakuru Municipality (Kenya)' which involved a census survey of all the 48 MFIs in the municipality and that used correlational research design and regression analysis established that firm characteristics had a significant positive effect on performance of the MFIs. Specifically, they established that structure-related market characteristics (size, age and ownership) had a higher effect than market-related and capital-related firm characteristics. Their finding was consistent with that of Kristiansens, Furuholt and Wahid (2003) and that of McMahon (2001) who concluded that organisational characteristics significantly influence organisational performance. Moreover, their findings are supported by those of Barako and Gatere's (2008) whose study on outsourcing practices of the Kenyan Banking Sector which focused on all the commercial banks found that bank size; measured as total assets was significantly associated with outsourcing decisions.

A Study by Opler and Titman (1994) on 'The effect of organisational attributes on performance' concluded that organisation-specific (internal) factors (organisational characteristics) seem to be the major determinants of the operating performance, and are the main drivers for competitive advantage which is crucial for surviving economic downturns. This finding is supported by Mohd (2005) who argues that organisational characteristics seem

to play a critical role in determining the overall performance of the organisation. In addition, findings of a study by Wiklund and Shepherd (2005) indicate that firms that are able to align firm attributes with the characteristics of the environment outperform other firms. These findings are supported by Dean, Bülent and Christopher (2000) who observe that firm characteristics are essential determinants of firm performance and success.

An empirical study by Okinyi (2012) on 'The determinants of financial performance of commercial banks in Kenya' established that bank size had a positive effect on return on assets (ROA) and return on equity (ROE). This finding agrees with the finding of a related study by Berger (1995; 2007) on the effect of firm size on performance of commercial banks that found increase in bank size translates into improved bank performance. Similar findings have been established by Short (1979) who found that bank size was closely related to the capital adequacy and that relatively large banks tend to raise less expensive capital, therefore, produces higher profit rates; and also Boyd and Runkle (1993) who found that the large size of the institution may result in economies of scale which in turns may reduce the costs of gathering and processing information.

Review of the empirical literature has brought to the fore a number of empirical research gaps which are summarised in Table 2.1.

Table 2. 1: Summary of Empirical Gaps

Author(s)	Focus of the Study	Research Methodology	Study Findings	Knowledge Gap (s)	Focus of the Current Study
Mukuna (2014)	Implementation of BPO strategy and performance of commercial banks in Kenya	Cross sectional descriptive research design Questionnaire consisting of closed ended questions only	Bank size and age influence outsourcing decisions in commercial banks	No linkage between BPO and performance Use of quantitative data only thus making triangulation difficult	The study provides linkage between BPO and performance of Kenyan commercial banks Use of open- & closed- ended questionnaires to generate qualitative and quantitative data to enable triangulation Use of both financial and non-financial measures in analysing performance
Machua (2014)	Outsourcing strategies among commercial banks in Kenya	Descriptive research design Open-ended Questionnaires for data collection Use of qualitative data only	Banks mainly outsource both critical non-core processes such as IT, HRM, marketing, security and non-critical non-core processes such as catering, cleaning & transportation	No linkage between BPO and performance Research instrument designed to collect qualitative data only.	The study provides linkage between BPO and performance of Kenyan commercial banks . Use of longitudinal, explanatory and descriptive research designs to establish causal relationships among study variables as well as provide a description of current state of study variables Use of both quantitative & qualitative data to enable triangulation
Muga (2014)	Effect of HR outsourcing on performance of Kenya Commercial Bank in Kenya	Case study Use of interview guide for data collection. Content analysis only	HR outsourcing led to cost efficiency	Use of a case study is limited in generalising findings Use of interview guide only for data collection hinders triangulation	Use of explanatory research design to establish causal relationships Use of both open-ended and closed-ended questionnaires to enable collection of qualitative and quantitative data .

				Use of content analysis is limiting in terms of drawing plausible conclusions	Use of descriptive and inferential statistics for data analysis to enable triangulation
Mimano (2014)	Outsourcing of Cash Management Services & Performance of Commercial Banks in Kenya.	Descriptive research design Census survey Questionnaire with Closed ended questions only	Strong positive relationship between outsourcing cash management Services and performance of commercial banks was established (R^2= 66.5%).	No use of financial measures to measure performance No qualitative data to enable triangulation Focus on only one outsourced process	Use of explanatory research design to establish causal relationships plus descriptive design to help describe the characteristics of the study variables Use of quantitative and qualitative data to enable triangulation. Use of four BPO variables instead of one to provide broader base for assessing the effect of BPO on performance
Ombasa (2013)	Challenges facing Implementation of outsourcing strategy in Kenya Post Bank	Case study Interview guide only to collect data Small sample size of 5 managers only Used content analysis only	Implementation of outsourcing strategies has partially helped improve efficiency but implementation is facing a lot of resistance from employees	Very small sample size (5 managers) Case study not reliable for generalisation of findings. Use of content analysis only hinders drawing of appropriate conclusions	Use of a large sample size to increase the validity of study findings (128 respondents) Focus on all the commercial banks engaged in BPO to enable generalisation of findings Use of explanatory research design to establish causal relationships Use of quantitative and qualitative data to enable triangulation.
Mohapatra (2012)	Managerial motivations behind outsourcing practices in HRM in the Indian banking sector	Use of questionnaires and interview guide for data collection. Simple random sampling for sample selection	66.29% of the respondents did not feel that HR outsourcing contributed to overall benefits for the organisation	Different study context (India). The study focused on HR outsourcing only	The study was conducted in a different context and sought to establish the effect of BPO on performance of Kenyan commercial banks Use of four BPO variables instead of one to provide broader base for assessing the effect of BPO on performance

Kathuni and Mugenda (2012)	Call centre outsourcing practices adopted by mobile phone companies in Kenya: A case study of Zain Kenya Ltd.	Case study Use of interview guide only for data collection Content analysis only	Outsourcing helped reduce overhead costs but risk of reputational damage and access to private and sensitive data that might leak to the public was a major concern	Use of a case study hampers generalisation of findings Use of interview guide only for data collection Hinders triangulation Use of content analysis only without analysis of inferential statistics jeopardises drawing of worthy conclusions	The study will be carried out in the commercial banking sector use of open-ended and closed-ended questionnaires to enable collection of qualitative and quantitative data to enable triangulation Descriptive and inferential statistics will be used for data analysis.
King'ori (2012)	Managers' perception of the effect of outsourcing strategies on the performance of Equity Bank limited, Kenya	Use of case study Survey design Sample size of 60 respondents Use of questionnaires for data collection Descriptive statistics only in data analysis	Outsourcing gave the bank competitive advantage in service delivery thus improving performance	Use of a case study limits generalisation of study findings Small sample size decreases the validity of study findings No use of financial measures of performance No inferential statistics	Focus on all the commercial banks engaged in BPO Open-ended and closed-ended questionnaires will be used for triangulation purposes Use of both financial & non-financial measures of performance Use of both descriptive and inferential statistics for data analysis to enable drawing of meaningful conclusions

Ping Yu (2010)	Empirical study of IT Outsourcing Impact on Banks' Performance in the US	Mean comparison Regression analysis	Banks engaged in IT outsourcing do not perform significantly better than the matched non-outsourcing banks using financial measures such as ROA, ROE, ROI, & NIM	Used only financial measures Focused only on outsourcing of IT Studied American Banks	Use of both financial & non-financial measures of performance Use of four BPO variables instead of one to provide broader base for assessing the effect of BPO on performance The study was conducted in a different context; Kenyan Commercial Banks
Barako & Gatere (2008).	Outsourcing Practices of the Kenyan Banking Sector and their Effect on Performance	Survey of 40 commercial banks operating in Kenya Use of descriptive research design Use of questionnaires only in data collection	Bank size measured as total asset was significantly associated with outsourcing decisions Bank performance measured as Return on Assets (ROA) and ratio of Non- Performing Loan (NPL) is not statistically associated with outsourcing decisions	Use of financial measures of performance only	Focus on the effect of BPO on performance in commercial banks in Kenya. Use of explanatory research design to establish causal relationships Use of a bigger sample size of 128 respondents to aid generalisation of findings.
Suhaimi, Hussin & Mustaffa (2007)	Information Systems Outsourcing: Motivations and the Implementation Strategy in a Malaysian Bank	Case study 40 interviews covering the management as well as non-management team	The study established that focus on core competencies, turning non-profit activities into profit-generating activities, and cost reduction were the motivating factors of IT outsourcing	Study in a different context (Malaysia) Use of interviews only For data collection Small sample size	Focus on commercial banks in Kenya to contextualise the study Use of open-ended and closed-ended questionnaires for data collection in order to enable triangulation

Gewald, Wüllenweber & Weitzel (2006)	The Influence of Perceived Risks on Banking Managers' Intention to Outsource Business Process: A Study of the German Banking and Finance Industry	Use of census survey Data from empirical surveys of Banking and Financial Industry (German BFI) balance sheet	Perceived risk has a significant impact on managers' attitudes towards outsourcing	Different Study context (Germany)	Focus on commercial banks in Kenya to contextualise it Use of open- and closed-ended questionnaires for triangulation purposes Use of descriptive and inferential statistics for data analysis to enable drawing of meaningful conclusions

Source: Researcher (2017)

2.4 Conceptual Framework

The conceptual framework presented in Figure 2.2 captures the relationship among the study variables: Business process outsourcing (independent variable); Competitive advantage (mediating variable); Organisational characteristics (moderating variable) and Performance of commercial banks (dependent variable).

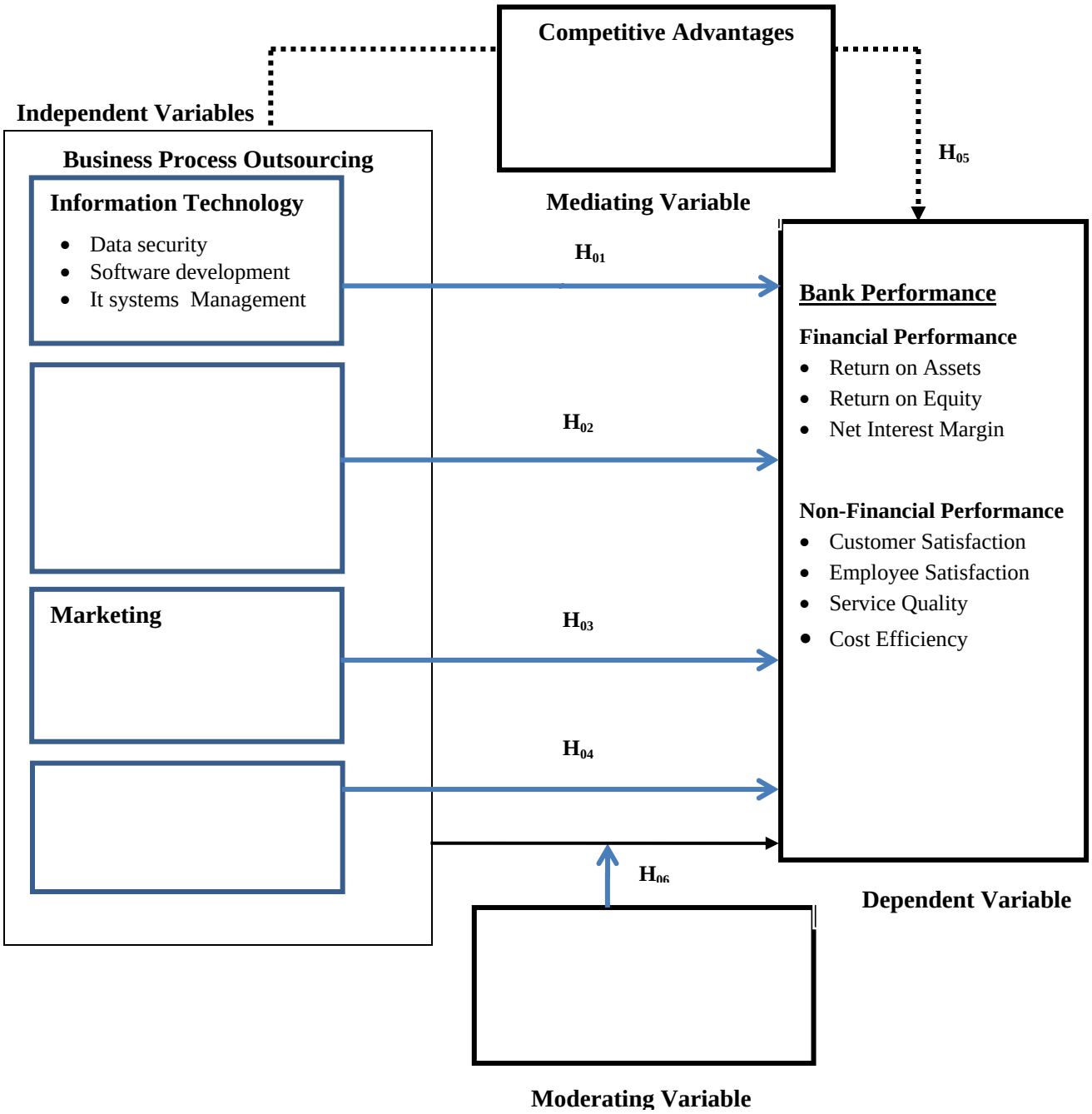

Figure 2. 2: Schematic diagram of the Conceptual Framework
Source: Researcher (2016)

The conceptual framework is based on the integration of different theories that explain the relationship between business process outsourcing and organisational performance such as Transaction Cost Economics Theory, Resource Based View (RBV), Dynamic Capabilities Theory; Core Competence Theory; and the Balanced Scorecard Model. These theories were used to generate the variables used in the construction of the framework.

The independent variable (BPO) comprised four constructs that were operationalised as follows: Information technology processes outsourcing (data security, software development and IT systems management); Human resource management processes outsourcing (recruitment, training and performance management); Marketing processes outsourcing (promotion, branding, marketing research) and Security (cash transit management and premises guarding). In addition, the relationship between BPO and organisational performance was mediated by competitive advantage operationalised as product/service differentiation, cost management and access to superior resources; and moderated by organisational characteristics operationalised by bank size, age and ownership structure. The dependent variable; organisational performance of commercial banks comprised two constructs operationalised as follows; financial performance (return on assets, return on equity and net interest margin) and non-financial performance (customer satisfaction, employee satisfaction, service quality, and cost efficiency).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research philosophy, research design, empirical model, operationalisation and measurement of variables, target population, sampling design and sample size, data collection instruments, reliability and validity, research procedure, data analyses and presentation, and finally ethical considerations.

3.2 Research Philosophy

The study adopted the positivism research paradigm as it reflects a deterministic philosophy in which causes probably determine the effects or outcomes (Mertens, 2005; Creswell, 2009) and consequently provides a basis for prediction and generalisation. It also deals with both quantitative and qualitative data and is dominated by hypothesis testing which allow operationalisation of hypothetical concepts and generalisation of results (Saunders, Lewis & Thornhill, 2009).

3.3 Research Design

Saunders, Lewis and Thornhill (2009) argue that no single research design exists in isolation and that a combination of different designs in one study enables triangulation and increase the validity of the findings. Consequently, this study used a combination of explanatory and descriptive research designs. Explanatory research design is employed when a hypothesis as to why something is happening already exists (Mugenda & Mugenda, 2003). Moreover, explanatory research establishes causal relationships between or among variables (Saunders,

2009; 2014). In this study, the researcher sought to establish the causal relationships among different variables by finding out the effect of BPO on the organisational performance of commercial banks in Kenya. Descriptive research design on the other hand enables the researcher to capture a population's attributes and test hypotheses, and describe the current relationship of the variables under study in their context without manipulating them (Cooper & Schindler, 2008).

3.4 Empirical Model

In statistical analysis, different models can be used to analyse quantitative data depending on the nature of variables. In this study, since the dependent variable (organisational performance) was continuous, regression analysis was used (Field, 2009). The study used multiple linear regression because it involved analysing the effect of a set of independent variables on the dependent variable (Cooper & Schindler, 2011). The model also tested the mediating and moderating effect of competitive advantage and organisational characteristics on the relationship between BPO and organisational performance of commercial banks respectively. This is in tandem with the recommendations of Brooks (2014) that multiple linear regression analysis is suitable for studies that involve more than one independent variable. Following is the multiple linear regression model:

$$P_i = \beta 0 + \beta_1 ITO + \beta 2 HRMO + \beta_3 MPO + \beta_4 SPO + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots (3.1)$$

Where;

P_i = Composite value for the performance of commercial banks in Kenya

β_0 = Constant (Y- intercept)

$\beta_1, \beta_2, \beta_3, \beta_4$ = Beta coefficients

ITO = Information Technology Outsourcing

HRMO = Human Resource Management Outsourcing

MPO = Marketing Processes Outsourcing

SPO = Security Processes Outsourcing

$\boldsymbol{\varepsilon}$ = error term

The coefficients paths β_1, β_2, β_3, and β_4 measured the effect of ITO, HRMO, MPO, and SPO on P_i respectively. The significance of beta values (β's) was used to test the corresponding hypotheses specified in chapter one. Model 3.1 was used to generate coefficients for each independent variable and their corresponding p-values. Significance of the regression coefficients of the independent variables was estimated at 95 per cent confidence level ($p< 0.05$). If p-value of the coefficient was less than 0.05, the study concluded that the independent variable was statistically significant thus rejecting the null hypothesis of non-significance and vice versa.

The composite index for business process outsourcing was computed using the method developed by Gupte, Bhama and Gupte (2012) to facilitate the application of joint effect of strategic resources in the regression model. The study used summations of Likert scale items in each section of the semi-structured questionnaire. The generated sum was used as a proxy for the given variable. The method was used by Kiiru (2015) and Njagi (2018). Therefore, each index for business process outsourcing component was computed using the formula below.

$$I = \sum_{i=1}^{N} qi$$

Where;

I: is the index (proxy) for the various components of business process outsourcing (information technology processes, human resource management processes, marketing processes, security processes).

q_i: is a likert item in each section of the semi-structured questionnaire.

N: is the number of likert items in each of the sections in the semi-structured questionnaire.

The resultant equation was as shown hereunder;

$$P_i = \beta_0 + \beta_5 BPO_i + \varepsilon \quad \text{……………………………………………………………..} \quad (3.2)$$

Where; β_5 = Beta coefficient for business process outsourcing composite value

BPO_i = Composite value of BPO

NB: The other symbols remain as defined in model 3.1.

Mediation Effect

Mediation analysis is commonly carried out by means of regression analysis. In testing the mediation effect, rather than a direct causal relationship between the independent variable and the dependent variable, a mediation model proposes that the independent variable influences the (non-observable) mediator variable, which in turn influences the dependent variable. In addition, the effect of the independent variable on the dependent variable without considering the mediator variable in the equation should be larger in absolute value than the effect of independent variable on the dependent variable in the equation with mediator variable included (MacKinnon, Fairchild & Fritz, 2007). The mediation process can be summarised by use of the path diagram as hereunder;

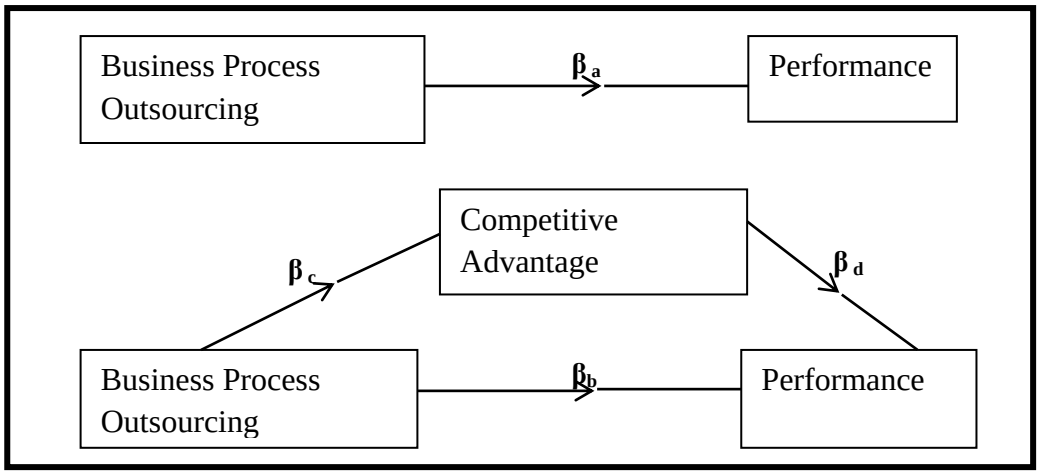

Figure 3. 1: Simple Mediation Model
Source: Adapted from Baron and Kenny (1986)

In Figure 3.1, β_a is the total effect of BPO on performance before controlling for the mediator (competitive advantage); β_b is the residual effect of BPO on performance after controlling for competitive advantage (mediating variable); β_c represents the effect of the independent variable on the mediator whereas β_d is the effect of the mediator on the dependent variable. Path β_c and β_d together represent the mediation effect (Iacobucci, Saldanha, & Deng, 2007).

In this study, to establish whether competitive advantage mediates the relationship between the independent variable (BPO) and the dependent variable (bank performance), causal steps approach by Baron and Kenny (1986), that involve estimating three (regression) equations (using least squares estimation) from a baseline regression equation was used. The same approach involving four steps as suggested by MacKinnon (2002) and used by Muli (2014), Kiiru (2015), Muraguri (2016) and Murigi (2016) was employed.

Step one: Model 3.2 $P_i = \beta_0 + \beta_5 BPO_i + \varepsilon$ (baseline model) was used to estimate the relationship between the independent variable (BPO) and the dependent variable

(organisational performance). It sought to determine whether there was an overall effect that could be mediated.

Step two: Model 3.3 sought to establish the relationship between the mediating variable (competitive advantage as a dependent variable) and BPO (independent variable).

$$CA_i = \beta_0 + \beta_5 BPO_i + \varepsilon \text{ .... } (3.3)$$

Step three: Model 3.4 was used to establish the relationship between the mediating variable (competitive advantage) and the dependent variable (organisational performance).

$$P_i = \beta_0 + \beta_6 CA_i + \varepsilon \text{ .... } (3.4)$$

Where; **CA_i** = Competitive Advantage

β_6 = Coefficient for Competitive Advantage

Step four: Model 3.5 was estimated to determine whether there was total, partial or no mediation on the relationship between the independent and the dependent variables. This was achieved by combining the effect of predictor and mediator variables on performance of commercial banks.

$$P_i = \beta_0 + \beta_5 BPO_i + \beta_6 CA_i + \varepsilon \text{ .... } (3.5)$$

Steps 1-3 were used to establish that zero-order relationships existed among the variables. If one or more of these relationships are non-significant, the conclusion is that mediation is not possible (Baron Kenny, 1986). If there are significant relationships from Steps 1 through 3, one proceeds to Step 4 where mediation is supported if the effect of BPO_i remains significant after controlling for CA_i. If BPO_i is not significant when CA_i is controlled for, there is full mediation, and if both BPO_i and CA_i significantly predict P_i, there is partial mediation. The decision-making criteria are summarised in Table 3.1 below.

Table 3. 1: Decision Criteria for Mediation

	Outcome	Conclusion
1.	If β_6 in model 3.4 is significant ($p \leq 0.05$) If β_5 in model 3.3 is significant ($p \leq 0.05$) If $\beta_{6,}$ and β_5 in models 3.3, 3.4 and 3.5 respectively are significant ($p \leq 0.05$)	There is partial mediation.
2.	If β_5 in model 3.3 is significant ($p \leq 0.05$) If β_6 in model 3.4 is significant ($p \leq 0.05$); If β_5 in model 3.5 is not significant ($p>0.05$) but β_6 in model 3.5 is significant ($p \leq 0.05$)	There is complete mediation
3.	If β_5 and β_6 in models 3.3 and 3.4 respectively are not significant ($p>0.05$) If β_5 and β_6 in model 3.5 are not significant ($p>0.05$)	There is no mediation

Source: Kenny and Baron (1986)

Moderating Effect

To test the moderating effect of organisational characteristics on the relationship between BPO and performance, stepwise multiple regressions were used.

Step one: Model 3.2 (baseline model) was used to estimate the relationship between the independent variable (BPO) and the dependent variable (performance) in a bid to establish if there was an overall relationship between them to be moderated.

$$P_i = \beta_0 + \beta_5 BPO_i + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.2)$$

Step two: The independent variable (BPO) together with the moderating variable (organisational characteristics) was entered into the model as predictors of the outcome variable (performance).

$$P_i = \beta_0 + \beta_5 BPO_i + \beta_7 0C_i + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(3.6)}$$

Where; β_7 = Coefficient for organisational characteristics (moderating variable)

OC_i = Composite index of organisational characteristics (moderating variable)

NB: When values for organisational characteristics were entered into Stata, the program dropped values for organisation age and ownership structure owing to insufficient responses. Consequently, only bank size was utilised as a moderating variable.

Step three: An interaction term (product of the two independent variables) is computed. An interaction term presents a joint relationship between BPO and organisational characteristics (bank size) and this relationship accounts for additional variance in the dependent variable beyond that explained by either BPO or competitive advantage factors. The moderator effect is present if the interaction explains statistically significant amount of variance in the dependent variable. The resultant model is as hereunder:

$$P_i = \beta_0 + \beta_5 BPO_i + \beta_8 BPO_i{*}0C_i + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots \textit{(3.7)}$$

Where; β_8 = Beta Coefficient for interaction of OC and BPO

$BPO_i{*}OC_i$ = Interaction of BPO_i and OCi

Whisman and McClelland (2005) contend that in case there is an overall effect to be moderated, the test for moderation would involve a determination on whether the coefficient for the interaction term statistically differs from zero. The decision criteria are as shown on Table 3.2.

Table 3. 2: Decision Criteria for Moderation

Model	Total Effect	Conclusion
B_5 model 3.2 is not significant p>0.05)	-	No overall effect to moderate
B_5 is significant (p≤0.05) and **B_7** in model 3.6 is not significant (p>0.05)	-	Moderating variable is an explanatory variable
B_5 and **B_8** in model 3.7 are significant (p≤0.05)	**B_8** is significant (p≤0.05)	Moderating variable has a moderating effect

Source: Whisman and McClelland (2005)

In case moderation is indicated, the coefficient **(β_8)** of the interaction term (BPO*Organisational Characteristics; OC^*BPO_i) in model 3.8 would yield the strength and direction determined by the moderating variable.

3.5 Operationalisation and Measurement of Variables

In this study, the dependent variable was organisational performance of commercial banks in Kenya. The independent variables were information technology, human resource management, marketing, and security processes outsourcing. The mediating variable was competitive advantage while the moderating variable was organisational characteristics. This study sought to establish how each of these variables affects performance of commercial banks in Kenya. Table 3.3 below shows the operationalisation of study variables and their measurement scales.

Table 3. 3: Operationalisation and Measurement of Variables

Variable	Nature of Variable	Operationalisation	Indicators/ Measures	Hypothesised direction of the predictor	Measure-ment scale	Measurement criteria in the Questionnaire
Information Technology Processes Outsourcing	Independent/ Predictor	Strategy to gain flexibility to respond to the dynamic business environment, improve product innovation and customer service by handing over the management of select IT business processes to specialised IT vendors	-Data security -Software development -IT systems management	Outsourcing information technology processes has no effect on performance of commercial banks in Kenya	5-point Likert scale	Part C Question 10 and 11
Human Resource Management Processes Outsourcing	Independent/ Predictor	Strategy to improve organisational productivity and effectiveness of bank's human resources by handing over the management of select HRM business processes to specialised HRM vendors	-Recruitment -Training -Performance management	Outsourcing human resource management processes has no effect on performance of commercial banks in Kenya	5-point Likert scale	Part D Question 12 and 13
Marketing Processes Outsourcing	Independent/ Predictor	Strategic choice by a commercial bank to hand over the management of certain marketing business processes to specialised marketing agencies in order to gain competitive advantage in providing competitive marketing mix and to sustainably provide customer value and satisfaction cost-effectively to its varied clientele	-Promotion -Branding -Customer service	Marketing processes outsourcing has no effect on performance of commercial banks in Kenya	5-point Likert scale	Part E Question 14 and 15
Security Processes Outsourcing	Independent/ Predictor	Strategy to improve performance by handing over the management of certain security processes to specialised security agencies in order to benefit from their state-of-the-art security resources and capabilities in managing the complex contemporary security issues	-Cash transit management -Premises guarding	Security processes outsourcing has no effect on performance of commercial banks in Kenya.	5-point Likert scale	Part F Question 16 and 17

Competitive Advantage	Mediating	Leverage gained through acquisition of superior resources and dynamic capabilities from specialised vendors that enable commercial banks to manage costs and offer unique products to their varied clientele thus improving their bottom line.	-Value addition/ differentiation -Access to superior resources -Cost management	Competitive advantage has no mediating effect on the relationship between business process outsourcing and performance of commercial banks in Kenya	5-point Likert scale	Part G Question 18
Organisational Characteristics	Moderating	Organisation specific attributes that influence management's decision making and choice of strategies and that have effect on the relationship between the independent the dependent variables	Bank size (market share, number of branches) Age (number of years) Ownership structure (public/private; local/foreign)	Organisational characteristics have no moderating effect on the relationship between business process outsourcing and performance of commercial banks in Kenya	5-point Likert scale	Part H Question 19
Bank Performance	Dependent/ Criterion	Fulfilment of stakeholders' expectations by delivering profits, increasing market share, improving efficiency of business processes, customer satisfaction and employee satisfaction	Financial performance (ROA, ROE, NIM) Non-financial Performance (Customer satisfaction, employee satisfaction, cost efficiency, service quality)		5-point Likert scale	Part I Question 20(a) and (b)

Source: Researcher and Literature Review (2017)

3.6 Target Population

The target population for this study was thirty two (32) commercial banks at their headquarters in Nairobi Capital City following qualifying criteria that required banks to be engaged in business process outsourcing and should not be either under statutory management or receivership for them to be included in the final study. A survey of the commercial banks led to the exclusion of eleven commercial banks; one had been liquidated, three were under statutory management while seven failed to participate in the survey to help determine whether they were engaged in BPO or not. The managers in-charge of Information Technology, Human Resource Management, Marketing and Operations departments in different commercial banks at the headquarters were the respondents thus constituting a total of one hundred and twenty eight (128) respondents. Appendix V gives detailed information on the target population.

Table 3. 4: Summary of the Distribution of Target Population

Category	Frequency	Number of Departments	Number of Respondents	Percentage
Large	8	4	32	25
Medium	11	4	44	34.4
Small	13	4	52	40.6
Total	**32**		**128**	**100**

Source: Researcher (2017)

3.7 Data Collection Instruments

The study used primary data collection tools; questionnaires that contained both open-ended and closed-ended items. Both closed-ended and open-ended questions are phenomenal in enabling the researcher to collect both quantitative and qualitative data whose combinative effect is critical in informing the study findings, drawing appropriate conclusions, and making generalisation of findings (Babbie, 2010).

3.8 Validity and Reliability of Data Collection Instruments

Validity and reliability ensures that the data collection instruments yield appropriate information the researcher can use to accurately answer the research questions in a relevant and correct manner (Mugenda & Mugenda, 1999).

3.8.1 Validity of Data Collection Instruments

The study ensured that instruments of data collection accurately measured the constructs of study variables by carrying a pilot study to ensure face validity; subjecting questionnaires to double check to ensure study objectives were covered and seeking opinions of experts such as supervisors and faculty members in the School of Business to ensure content validity; and operationalising the study variables to ensure construct validity. Field (2009) and Huang, Lee, Kim & Judge (2013) contend that pilot testing is necessary for establishing data collection instruments possess face and content validity. Mugenda and Mugenda (2003) argue that content validity can be reinforced by seeking opinions of experts or professionals. Content and construct validities were also ascertained by ensuring that objectives were backed up by theoretical frameworks.

3.8.2 Reliability of Data Collection Instruments

Reliability is the extent to which a measurement procedure or instrument yields stable or consistent scores over time or across raters (Malhotara, 2004). The researcher ensured accuracy and consistency of the instruments through a pilot study as suggested by Huang *et al.* (2013). The questionnaire was pre-tested with five randomly selected commercial banks in Kiambu County. Pre-testing was used to establish whether each question measured what

it was supposed to measure; consistency in the interpretation of questions and relevance of choices given in the questions. The feedback from the pilot study was instrumental in revising the questionnaire to ensure precision in the focus of the study objectives. Appendix II shows the final questionnaire used to collect the data.

The researcher also ensured internal consistency by use of Cronbach Alpha Coefficient. Gay and Airasian (2000) posit that Cronbach Alpha coefficients can be used to determine how items of the instrument are related to each other. Cronbach Alpha coefficients range from zero to one and a good measure of reliability is considered to be where the alpha coefficient of predictor variables ranges from 0.7 and above (Ehlers, 2000). However, Cooper and Schindler (2003) opine that Cronbach alpha value of more than 0.5 is adequate. In this study, the researcher used a Cronbach coefficient threshold of 0.7 to indicate reliability of the research instrument items. The reliability results for study variables are as shown on Table 3.5.

Table 3. 5: Test of Reliability of the Research Instrument

Domain/Variable	Cronbach Alpha Coefficient	Remark
Information Technology Processes Outsourcing	0.8923	Reliable
Human Resource Management Processes Outsourcing	0.9198	Reliable
Marketing Processes Outsourcing	0.9567	Reliable
Security Processes Outsourcing	0.8971	Reliable
Competitive Advantage	0.6642	Reliable
Non-financial Performance	0.9273	Reliable
Financial performance	0.9358	Reliable

Source: Field Data (2017)

3.9 Data Collection Procedure

A letter of introduction was obtained from the Graduate School of Kenyatta University and taken to the National Commission for Science Technology and Innovation (NACOSTI) to

apply for research permit. Then, the participating banks were contacted in writing for permission to conduct the research in their institutions. Appointments were then booked with the target respondents. The researcher was helped by trained research assistants to deliver the questionnaires to the respondents. The respondents were allowed a period of one month to fill the questionnaires and thereafter the researcher with the aid of research assistants collected them for analysis.

3.10 Data Analysis

Qualitative and quantitative methods of data analysis were employed.

3.10.1 Qualitative Data Analysis

Content analysis was employed in analysing qualitative data. Data from open-ended items were analysed according to themes that emerged from the responses provided under different variables in the questionnaire (Mugenda & Mugenda, 1999).

3.10.2 Quantitative Data Analysis

Quantitative data were analysed using descriptive statistics such as frequencies, means, percentages and standard deviations; and inferential statistics such as multiple regression and correlation analysis in Stata version 15.0 Software (statistical package). Pearson's correlation coefficient was used to establish the nature and strength of relationships among different variables. The Adjusted R^2 was used to measure the amount of variation in the dependent variable (bank performance) explained by the independent variables of business process outsourcing. Multiple linear regression analyses were conducted to establish the effect of independent variables on the dependent variable. To make reliable inferences

from the data, all the statistical tests were subjected to tests of significance at alpha level of α=0.05.

3.11 Diagnostic Tests

Before performing regression analyses, the researcher conducted various diagnostic tests as recommended by Malhotra and Dash (2011). The same approach has been used by several researchers; Muathe (2010), Njuguna (2013), Kiiru (2015), Murigi (2016), Muraguri (2016), Njagi (2018), among others. Diagnostic tests are important in testing of assumptions of classical linear regression models (CLRM) for data requiring multiple regression analysis. To ensure that the results of the multiple linear regression analysis were reliable, the following pre-estimation tests were conducted: normality, linearity, internal consistency, sampling adequacy, heteroscedasticity, model specification, and multi-collinearity.

3.11.1 Test of Normality

Normality test is used to establish whether data are normally distributed to enable generalisation of findings. In this study, the researcher tested for normality using the Shapiro-Wilk test because of the relatively small population (128 respondents) involved. Shapiro-Wilk test has the power to detect departure from normality due to skewness or kurtosis or both. Its statistic ranges from zero to one (0 – 1) and figures higher than 0.05 indicate the data are normal (Razali & Wah, 2011). The significance level for this study was $\alpha = 5\%$. For $P \geq 0.05$ normality was assumed while for $P < 0.05$ deviation from normality was assumed.

3.11.2 Test of Linearity

This test seeks to establish whether the relationship between the explanatory (independent) variables and the outcome variable (dependent) is linear. It implies that each increase by one unit in an explanatory variable is associated with a fixed increase in the outcome variable. In this study, Pearson product-moment correlation, which measures the strength of the linear association between variables, was used. The value of a correlation coefficient ranges between -1 and 1. A negative correlation indicates an inverse relationship where an increase in one variable causes a decrease in the other while a positive correlation indicates a direct influence where an increase in one variable causes an increase in the other variable (Field, 2009).The greater the absolute value of a correlation coefficient, the stronger the linear relationship.

The decision criteria is that if the p-value is less than the significance level ($\alpha = 0.05$), the null hypothesis is rejected and conclusion made that there is sufficient evidence to support the existence of a significant linear relationship between the two variables (because the correlation coefficient is significantly different from zero). However, if the p-value is greater than the significance level ($\alpha = 0.05$), then the null hypothesis is not rejected (Bewick, Cheek & Ball; 2003). Where p-values for the correlation coefficient are less than 0.01, the explanatory variable has a significant positive association and hence there is a linear relationship.

3.11.3 Internal Consistency

Bartlett's Test of Sphericity was used to test the internal consistency of items in the data collection instrument as recommended by De La Ossa, Martinez, Herazo and Campo (2009).

Internal consistency is a measure based on the correlations between different items on the same test. It measures whether several items that propose to measure the same general construct produce similar scores. The decision criteria is that if the test produces p-values of less than 0.01, the implication is that there is internal consistency between the items of each dimension in the structured questionnaire, and hence Likert scale items from each dimension of the questionnaire can be used as a composite. The test has a null hypothesis of no internal consistency (inter-correlation). Failure to reject the null hypothesis means that the principal components that measure a particular domain have to be found through factor analysis. However, rejection of the null means that all the items are internally consistent and their composites can be used to measure the variable in question.

3.11.4 Test of Sampling Adequacy

Kaiser-Meyer-Olkin (KMO) test was used to determine whether the sample used was adequate for data analysis. The test measures sampling adequacy for each variable in the model and for the complete model. Additionally, the statistic is a measure of the proportion of variance among variables that might be common variance. KMO measure varies between 0 and 1, and values closer to 1 are better with a threshold of 0.5 (Williams, Brown & Onsman, 2012). In this study, the KMO test statistic was greater than 0.5 meaning that the sample was adequate and representative of the study population.

3.11.5 Test of Homoscedasticity/Heteroscedasticity

This test measures whether or not the variance between the dependent and the independent variables is the same. It is a test of the assumption that the dependent variable exhibits similar amounts of variance across the range of values for an independent variable (Hair, Anderson, Tatham & Black, 1998). In this study, homoscedasticity was tested using Breusch–Pagan test,

which is a chi-squared test that determines whether the variance of the errors from a regression is dependent on the values of the independent variables. The test statistic is distributed $n\chi^2$ with k degrees of freedom. If the test statistic has a p-value below an appropriate threshold (e.g. $p<0.05$) then the null hypothesis of homoskedasticity is rejected and heteroskedasticity assumed (Breusch & Pagan, 1979; Cook & Weisberg, 1983).

3.11.6 Specification Test

This test is used to establish whether linear models used are correctly specified (neither under- or over-specified nor omit or include excess variables) in order to apply OLS. In this study, the Ramsey Specification test was used. The decision criterion is if p-value is greater than 5 per cent level of significance, the null hypothesis assumed by the Ramsey Specification test that the model is well specified is not rejected indicating that the model has no omission or inclusion of variables bias.

3.11.7 Test of Multicollinearity

Multicollinearity test is used to show the linear relationship between independent variables. In multiple regression analysis, regression coefficients become less reliable as the degree of correlation between the independent variables increases (Kothari, 2004). Variance inflation factor (VIF); the reciprocal of tolerance, was used to test for multicollinearity. A VIF of more than 10 indicates a problem with multicollinearity. Tolerance Statistics of less than 0.1 indicate a serious problem while those below 0.2 indicate a potential problem (Myers, 1990).

Table 3.6 presents the summary of data analyses.

Table 3. 6: Summary of Data Analysis

Objective(s)	Hypotheses	Statistical Model	Hypothesis Test	Threshold for Interpret-ation
Research Objective 1 To establish the effect of outsourcing Information Technology processes on performance of commercial banks in Kenya	**Hypothesis 1** **H_{01}:** Outsourcing information technology processes has no effect on performance of Commercial Banks in Kenya	$P_i = \beta_0 + \beta_1 ITO + \epsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant β_1= Beta coefficient of ITO **ITO**=Information Technology Outsourcing ε= Error term	H_{01}: $\beta_1=0$ Ha: $\beta_1 \neq 0$ Reject H_{01} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Adjusted R^2 value F-value t-value P≤0.05
Research Objective 2 To find out the effect of outsourcing human resource management processes on performance of commercial banks in Kenya	**Hypothesis 2** **H_{02}:** Outsourcing human resource management processes has no effect on performance of Commercial Banks in Kenya	$P_i = \beta_0 + \beta_2 HRMO_i + \epsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant β_2= Beta coefficient of HRMO **HRMO**= Human resource management outsourcing ε= Error term	H_{02}: $\beta_2=0$ Ha: $\beta_2 \neq 0$ Reject H_{02} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Adjusted R^2 value F-value t-value P≤0.05
Research Objective 3 To establish the effect of outsourcing marketing processes on performance of commercial banks in Kenya	**Hypothesis 3** **H_{03}:** Marketing processes outsourcing has no effect on performance of Commercial Banks in Kenya	$P_i = \beta_0 + \beta_3 MPO_i + \epsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant β_3= Beta coefficient of MPO **MPO**= Marketing processes outsourcing ε= Error term	H_{03}: $\beta_3=0$ Ha: $\beta_3 \neq 0$ Reject H_{03} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Adjusted R^2 value F-value t-value P≤0.05

Research Objective 4 To establish the effect of outsourcing security processes on performance of commercial banks in Kenya	**Hypothesis 4** **H_{04}:** Security processes outsourcing has no effect on performance of Commercial Banks in Kenya	$P_i = \beta_0 + \beta_4 SPO_i + \epsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant β_4= Beta coefficient of SPO **SPO**=Security processes outsourcing ε= Error term	H_{04}: $\beta_4=0$ Ha: $\beta_4 \neq 0$ Reject H_{04} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Adjusted R^2 value F-value t-value P≤0.05
Research Objective 5 To assess the mediating effect of competitive advantage on the relationship between business process outsourcing and performance of commercial banks in Kenya	**Hypothesis 5** **H_{05}:** Competitive advantage has no mediating effect on the relationship between business process outsourcing and performance of Commercial Banks in Kenya	$P_i = \beta_o + \beta_5 BPO_i + \varepsilon$ $P_i = \beta_o + \beta_6 CA_i + \varepsilon$ $CA_i = \beta_o + \beta_5 BPO_i + \varepsilon$ $P_i=\beta_o+\beta_5 BPO_i+\beta_6 CA+ \varepsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant β_5, β_6= Beta coefficients CA_i= Competitive advantage BPO_i = Composite of Business process outsourcing ε_i= Error term	H_{05}: $\beta_0,\beta_5, \beta_6 =0$ Ha: $\beta_0,\beta_5, \beta_6 \neq 0$ Reject H_{05} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Adjusted R^2 value P≤0.05
Research Objective 6 To assess the moderating effect of organisational characteristics on the relationship between business process outsourcing and performance of commercial banks in Kenya	**Hypothesis 6** **H_{06}:** Organisational characteristics have no moderating effect on the relationship between business process outsourcing and performance of Commercial Banks in Kenya.	$Pi=\beta_o+\beta_5 BPO_i+\beta_7 OC_i+ \varepsilon$ $Pi=\beta_o+\beta_5 BPO_i+\beta_7 OC_i + \beta_8 OC_i^{*} BPO_i+ \varepsilon$ **Where;** P_i=Performance of commercial banks β_0 = Constant $\beta_5, \beta_7, \beta_8$= Beta coefficients OC_i= Organisational characteristics BPO_i = Composite of Business process outsourcing $OC^{*}BPO_i$= Interaction of OC and BPO ε= Error term	H_{06}: $\beta_8=0$ Ha: $\beta_8 \neq 0$ Reject H_{06} if p-value is ≤ 0.05; otherwise do not reject at 5% significance level	Change in Adjusted value Change in F-value

Source: Researcher (2017)

3.12 Ethical Consideration

The researcher put rigor in ensuring that the study adhered to research ethical standards by: obtaining approval of the research proposal by Graduate School of Kenyatta University (Appendix VII), obtaining research authorisation from Kenyatta University Graduate School (Appendix VIII), obtaining research authorisation and research permit from the National Commission for Science, Technology and Innovation (NACOSTI) (Appendices IX and X respectively), seeking voluntary participation of targeted departmental managers at the headquarters and assuring confidentiality and privacy of information by giving a guarantee in written form about the security of the information they would volunteer (Appendix I).

CHAPTER FOUR

EMPIRICAL FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings and discussion of the study on the following areas; the response rate, attributes of the respondents, descriptive and inferential statistics of the various domains of the structured questionnaire, pre-estimation diagnostics, and hypothesis testing.

4.2 Analysis of the Response Rate

The researcher sought to establish the response rate of the study and Table 4.1 shows the results.

Table 4. 1: Response Rate

Response Rate	Frequency	Per cent
Filled and returned	76	59.3
Non-returned	52	40.7
Total	**128**	**100**

Source: Survey Data (2017)

The researcher distributed 128 questionnaires out of which 76 were filled and returned by the respondents representing an overall successful response rate of 59.3 per cent. Fifty two (52) questionnaires (40.7 per cent) were never returned. With regard to the suitability of the above response rate in making generalisations and inferences, Mugenda and Mugenda (2003) opine that a response rate of 50% is adequate, 60% is good and 70% and above is very good while Wimmer and Dominick (2006) observe that a response rate of 21–70 per cent is acceptable for self-administered questionnaires as it guarantees accuracy and minimises bias. Therefore, the response rate of 59.3 per cent is deemed appropriate for achieving the objectives of the study and making generalisations on the entire commercial banking sector.

4.2.1 Distribution of Respondents by Bank Size

Table 4.2 gives the summary of response rate based on the bank size.

Table 4. 2: Distribution of Respondents by Bank size

Size	Frequency	Percentage
Large	21	27.6
Medium	32	42.1
Small	23	30.3
Total	**76**	**100**

Source: Survey Data (2017)

Table 4.2 shows that out of the 76 successful responses, 21 (27.6 per cent) were from large commercial banks, 32 (42.1 per cent) were from medium-sized commercial banks and 23 (30.3 per cent) were from small banks. This shows that all the commercial banks across the size-divide were represented. The higher number of respondents in favour of medium-sized banks is consistent with the population under study because the medium-sized banks employ the largest number of employees in the Kenyan banking sector (CBK, 2017). Therefore, the collection of data and nature of respondents allows generalisations of the study findings to the entire banking sector.

4.3 Demographic Information of Respondents

The researcher sought to establish the following attributes of respondents: gender, education level and working experience in a bid to determine their suitability in the study. Table 4.3 gives the results.

Table 4. 3: Demographic Information of Respondents

Demographic Category	Frequency	Percentage
Gender		
Male	44	57.9
Female	32	42.1
Total	**76**	**100**
Education Level		
Diploma	1	1.3
Bachelor's Degree	55	72.4
Master's Degree	20	26.3
PhD	0	0
Total	**76**	**100**
Working Experience		
Less than 5 years	9	11.8
5-10 years	37	48.7
11-15 years	20	26.3
Above 15 years	7	9.2
Total	**73**	**96.1**
Missing	3	3.9
Total	**76**	**100**

Source: Survey Data (2017)

The results of Table 4.3 show that the respondents were fairly distributed across gender. Of the total respondents, 57.9 per cent were males while 42.1 per cent were females. This represented a marginal difference in terms of the respondents who took part in the study. This finding shows a fair balance where neither gender dominated the managerial positions; and further shows appreciable progress has been made in the commercial banking sector in achieving the one-third gender rule in line with the provisions of the Kenyan Constitution.

With regard to the level of education, 1.3 per cent of the respondents had a diploma, 72.4 per cent had bachelor's degree, 26.3 per cent had master's degree and none had a doctor of philosophy degree (PhD). It can thus be concluded that on average, most managers in commercial banks have a bachelor's degree (72.4%). This observation shows that despite top management positions at either the middle-level or top-level of management requiring

appreciable levels of education, experience and ability to think non-linearly in the context of the hyper-competitive, volatile, and highly dynamic business environment, commercial banks have not invested heavily on higher levels of education for their managers. Although commercial banks have tight working schedules that might limit opportunities for further studies, the top management should be deliberate about making time and opportunities for their staff to pursue higher education.

In terms of working experience, 11.8 per cent had working experience of less than five years in the commercial banking sector, 48.7 per cent had working experience of between five to ten (5-10) years, 26.3 per cent had working experience of between eleven to fifteen (11-15) years while 9.2 per cent had working experience of above fifteen years. In general, those who had worked in commercial banks for a period of above five years constituted 84.2 per cent which is consistent with promotion policies of both public and private institutions that in order to ascend to a managerial position, one should have accrued enough experience in the particular sector. It can therefore be concluded that owing to the significant number of respondents with enough experience in this study implies that they were well qualified to provide crucial information on performance of commercial banks in Kenya thus improving validity and reliability of the research findings.

4.4 Descriptive Statistics

This section presents discussion on the descriptive statistics for the study variables namely business process outsourcing, competitive advantage, bank characteristics, and organisational performance. The descriptive statistics summarise the main characteristics of the study variables.

4.4.1 Information Technology Processes Outsourcing

Information technology outsourcing was measured using three indicators namely; data security, software development, and IT maintenance systems. Respondents were asked to rate information technology outsourcing indicators on the Likert scale of 1 to 5, where 5 represents; "To a very great extent" and 1 "To a very low extent". Means and standard deviations were then computed for the variable as given in Table 4.4.

Table 4. 4: Descriptive Statistics: Information Technology Processes Outsourcing

	N	Min	Max	Mean	Std. Dev.
Data Security					
External vendors are engaged in managing data security	76	1	5	3.7	1.264
Vendors provide data back-up	76	1	5	3.5	1.167
Vendors apply best practices and security technology to the storage system to augment server and network security	76	1	5	3.8	1.142
The bank uses cloud computing	76	1	5	3.7	1.115
There is budget for data security by specialised vendors	76	1	5	4.0	1.110
Cost containment is a factor in engaging the services of specialist companies in managing data security	76	1	5	4.4	0.837
Aggregate Score				**3.9**	**1.106**
Software Development					
Software development is done by external experts	76	1	5	4.1	1.157
Banks use complex soft wares which require the skills of highly specialised experts	76	1	5	4.2	1.088
The high rate of IT products obsolescence necessitates handing-over software development processes to external vendors	76	1	5	4.0	0.999
It is cheaper to use external specialists to manage the frequent upgrading of software used by the bank	76	1	5	3.1	1.317
The high rate of product innovation in banks require specialised software developers to support such innovations	76	1	5	4.2	1.001
Specialised vendors are best placed to manage rapidly changing software industry	76	1	5	4.1	1.072
Aggregate Score				**4.0**	**1.106**
IT Systems Maintenance					
External experts maintain the bank's IT systems	76	1	5	3.8	1.314
It is cheaper for the bank to use external specialised companies in IT systems maintenance	76	1	5	3.1	1.310
IT systems by the bank require regular updates which would be costly for the bank if it has to do it using in-house experts	76	1	5	3.8	1.070
Cost management is a factor in engaging the services of specialist companies in IT systems maintenance.	76	1	5	4.3	0.922
Aggregate Score				**3.8**	**1.154**
Average aggregated Score				**3.9**	**1.122**

Source: Survey Data (2017)

Table 4.4 shows that information technology outsourcing had an overall aggregate mean score of 3.9 on the five-point Likert scale adopted by the study with a standard deviation of 1.122. This implies that majority of the respondents were of the view that IT processes outsourcing is critical in the performance of commercial banks. Among the three outsourced IT processes studied, software development was the most outsourced with a mean of 4.0 and a standard deviation of 1.106 whereas IT maintenance was the least outsourced process with a mean of 3.8 and a standard deviation of 1.154.

Managers responses supported the statements that IT outsourcing is crucial in helping commercial banks in cost management (Mean=4.4; SD=0.837), access experts' skills (Mean=4.2; SD=1.088) and keep pace of the high rate of product innovation in banks through the help of specialised software developers (Mean=4.2; SD=1.001). These findings seem to support the arguments of Greer *et al*. (1999); Yang *et al*. (2007); McIvor (2008); and Lee & Kim (2010) that BPO is critical in helping organisations to attain financial economies, access new technologies and specialised expertise; achieve competitive advantage; improve flexibility, speed, and innovation in developing business applications. The role of ITO in cost containment is also consistent with CBK continued requirement for commercial banks to adopt cost-efficient management strategies in order to improve their performance (Bank Annual Supervision Reports: 2014, 2015, 2016 & 2017). However, it is instructive to note that although managers agreed that ITO was an effective strategy in cost-management generally, they did not appear to strongly agree that it was cheaper for the commercial banks to use external specialised companies in IT systems maintenance and frequent upgrading of software used by banks (Mean=3.1; SD=1.317).

4.4.2 Human Resource Management Processes Outsourcing

Respondents were asked to rate human resource management outsourcing indicators on the Likert scale of 1 to 5, where 5 represents; "To a very great extent" and 1 "To a very low extent". Means and standard deviations were then computed for the variable as given in Table 4.5.

Table 4. 5: Descriptive Statistics: Human Resource Management Processes Outsourcing

Human Resource Management Outsourcing	N	Min	Max	Mean	Std. Dev.
Recruitment					
The bank prefers using specialised recruitment agencies in selecting staff to fill vacant or new positions	76	1	5	3.0	1.456
External recruitment agencies take a shorter time to fill vacancies	76	1	5	3.2	1.236
In-house recruitment takes a lot of management's time	76	1	5	3.4	1.301
Specialised recruitment agencies are better at matching employee's competencies with the job requirements	76	1	5	3.8	1.070
Cost-efficiency is a factor in using specialised recruitment agencies	76	1	5	4.0	1.265
Aggregate				**3.5**	**1.266**
Training					
The bank mostly uses consultancy and training firms in conducting training for the staff	76	1	5	3.8	1.225
The bank management engages the services of consultants on a range of issues requiring capacity building	76	1	5	3.9	1.117
External specialist groups are engaged by the bank on team building activities	76	1	5	3.7	1.376
Consultancy firms have a large pool of experts who are able to address varied training needs of their bank clientele	76	1	5	4.0	1.085
There is a lot of skill transfer from experienced consultants	76	1	5	3.9	1.204
Training programs by experts are properly designed to meet the bank's specific objectives	76	1	5	3.9	1.107
Consultancy firms are more flexible in offering training as needs arise	76	1	5	3.7	1.135
There is a budget for training by specialist firms	76	1	5	4.1	1.110
Aggregate				**3.9**	**1.170**

Performance management					
Specialist firms are used in conducting performance appraisals	76	1	5	2.8	1.433
External specialists are more objective in performance evaluation	76	1	5	3.2	1.351
Internally-conducted performance evaluations are very time consuming and tedious	76	1	5	3.4	1.214
Employees prefer performance evaluation by external specialist firms to in-house evaluation	76	1	5	3.4	1.343
External agencies are more flexible in conducting performance evaluation	76	1	5	3.4	1.160
Cost-efficiency is a factor in engaging external bodies to conduct performance evaluation.	76	1	5	3.9	1.212
There is a budget for performance evaluation by specialist firms.	76	1	5	3.6	1.552
Aggregate				**3.4**	**1.324**
Average aggregated Score				**3.6**	**1.253**

Source: Survey Data (2017)

The overall aggregate mean score of human resource management outsourcing was 3.6 on the five-point Likert scale with a standard deviation of 1.253. This implies that majority of the respondents were in agreement that HRM outsourcing is an effective strategy in improving performance of commercial banks.

Among the three outsourced HRM processes studied, training was the most outsourced with a mean of 3.9 and a standard deviation of 1.170. The respondents seemed to support the statements that; Consultancy Firms have a large pool of experts who are able to address varied training needs of their bank clientele (Mean=4.0; SD=1.085); there is a lot of skill transfer from experienced consultants (Mean=3.9; SD=1.204); and training programs by experts are properly designed to meet the bank's specific objectives (Mean=3.9; SD=1.107). This finding supports Mahmud's (2012) observation that training and development (as well as recruitment) are amongst the most demanding HRM functions for the organisations that require to be considered for outsourcing in order to improve productivity of workers. However, respondents did not strongly feel that specialist vendors were involved in recruiting people to fill vacant positions.

The results of the HR processes outsourced also revealed that performance management processes were the least outsourced with a mean of 3.4 and a standard deviation of 1.324. The statement that; Specialist firms are used in conducting performance appraisals had the lowest mean score of 2.8 and a standard deviation of 1.433 on the five-point Likert scale. This implies that managers preferred internal performance appraisals to external performance appraisals.

4.4.3 Marketing Processes Outsourcing

This domain was measured using the following indicators; promotion, branding and marketing research. Respondents were asked to rate marketing processes outsourcing indicators on the Likert scale of 1 to 5; where 5 represents; "To a very great extent" and 1 "To a very low extent". Means and standard deviations were then computed for the variable as given in Table 4.6.

Table 4. 6 Descriptive Statistics: Marketing Processes Outsourcing

Marketing Processes Outsourcing	N	Min	Max	Mean	Std. Dev.
Promotion					
The bank uses a marketing agency for its advertisements	76	1	5	3.8	1.346
External vendors are used by the bank for sales promotion	76	1	5	3.6	1.337
The Relationship Manager works in liaison with marketing agencies	76	1	5	3.7	1.167
There is a budget for engaging the services of marketing agencies	76	1	5	4.2	1.154
The bank benefits from the resources and experience of the promotion agency	76	1	5	4.0	1.161
Aggregate Score				**3.9**	**1.233**

Branding					
Specialist vendors are used in corporate branding	76	1	5	4.0	1.168
Specialist vendors are engaged in product branding	76	1	5	4.0	1.202
Strong branding by specialist companies improves product's visibility	76	1	5	4.2	0.995
Use of branding specialists improves customer impression on the bank as well as its products	76	1	5	4.0	1.060
Strong branding attracts more customers	76	1	5	4.4	0.936
Strong branding enhances customer loyalty	76	1	5	4.2	1.027
There is a budget for engaging the services of branding specialists	76	1	5	4.1	1.251
Aggregate Score				**4.1**	**1.091**
Marketing Research					
The bank uses specialist marketing agencies to conduct marketing research	76	1	5	3.8	1.181
The bank benefits from the resources of the specialist marketing agencies	76	1	5	3.9	1.182
Marketing research is time-consuming for in-house staff	76	1	5	3.6	1.132
Cost-efficiency is a major factor in engaging the services of specialist marketing agencies	76	1	5	4.2	1.023
Marketing agencies are more flexible in responding to the environmental changes	76	1	5	3.8	0.805
The experience of marketing agencies is quite beneficial to the bank in responding to emerging issues in banking	76	1	5	3.8	1.070
There is a budget for engaging the services of specialist marketing agencies	76	1	5	4	1.130
Aggregate				**3.9**	**1.075**
Average aggregated Score				**4.0**	**1.133**

Source: Survey Data (2017)

The overall aggregated mean score for marketing processes outsourcing was 4.0 on the five-point Likert scale with a standard deviation of 1.333. This result shows that respondents were in concurrence that outsourcing marketing processes affects performance of commercial banks. Among the studied outsourced marketing processes, corporate branding was the most outsourced with an aggregate mean score of 4.1 and a standard deviation of 1.091. Respondents strongly agreed with the statements that; Strong branding by specialist marketing agencies improves product's visibility (Mean= 4.2; SD=0.995); improves customer impression

on the bank as well as its products (Mean=4.0; SD=1.060); attracts more customers (Mean=4.4; SD=0.936); and enhances customer loyalty (Mean=4.2; SD=1.027). Respondents also supported the statements that outsourcing marketing processes leads to cost efficiency (Mean=4.2; 1.023); and access to resources and experience of marketing agencies (Mean=4.0; 1.161). These findings support the findings of Chumba, Chepkwony and Tum (2015) whose study on the effect of outsourcing marketing services on performance of manufacturing companies established a positive and significant effect on firm performance. These findings are also corroborated by the observations of Klaas, McClendon and Gainey (2001) that marketing outsourcing improves an organisation's performance by improving its market positioning, reducing costs, and improving overall quality.

4.4.4 Security Processes Outsourcing

Respondents were asked to rate security processes outsourcing on the Likert scale of 1 to 5, where 5 represents; "To a very great extent" and 1 "To a very low extent". Means and standard deviations were then computed for the variable as given in Table 4.7.

Table 4. 7: Descriptive Statistics: Security Processes Outsourcing

Security Processes Outsourcing	N	Min	Max	Mean	Std. Dev.
Cash transit services are offered by a security company	76	1	5	4.6	0.747
Security vendor bears liability of lost on-transit cash	76	1	5	4.8	0.911
Security of bank premises is offered by guards from external security companies	76	2	5	4.8	0.535
Installation of security equipment such as CCTV cameras and their management is the responsibility of the security company	76	2	5	4.4	0.826
Security management by banks internal staff is time consuming and expensive	76	1	5	3.7	1.266
Security management by banks internal staff is more risky	76	2	5	4.2	0.860
Security companies have the modern technology that enhance provision of security needs	76	2	5	4.4	0.717
There is a budget for engaging the services of specialist security companies	76	2	5	4.6	0.643
Specialised security companies are more flexible in responding to changing security needs	76	2	5	4.4	0.720
Aggregate Score				**4.4**	**0.803**

Source: Survey data (2017)

Table 4.7 shows that the aggregate mean score for security processes outsourcing was 4.4 on the five-point Likert scale with a standard deviation of 0.803. This implies that the respondents were of the view that security processes outsourcing is an effective strategy in improving performance of commercial banks in Kenya. The respondents supported the statements that; security processes outsourcing transfers risks associated with cash loss to the vendor (Mean=4.8;SD=0.911); it allows the banks access to modern security technology used by specialised vendors without having to invest directly into such expensive technologies (Mean=4.4; SD=0.717); saves the bank costs associated with installation of security infrastructure (Mean=4.4; SD=0.826); and benefits from the flexibility of specialised security companies in responding to changing security needs (Mean=4.4; SD=0.720). This finding supports the assertions of Stevens (2016) and Ricci (2006) that outsourcing security processes help organisations to stay competitive and profitable by transferring some of the liability risk

to the security guard companies, getting world-class security at a fraction of the price it would cost an organisation to do it by itself because private security guard companies handles the start-up costs associated with hiring security guards as well as purchasing equipment and uniforms.

4.4.5 Competitive advantage

Competitive advantage was measured using five Likert items. Respondents were required to indicate the extent to which they agreed or disagreed with the statements on the relationship between outsourcing and competitive advantages where 5 represented; "Strongly agree" while 1 represented "Strongly disagree". The descriptive statistics for each of these items are reported in Table 4.8.

Table 4. 8: Descriptive Statistics: Competitive Advantages

Competitive Advantage	N	Min	Max	Mean	Std. Dev.
Outsourcing allows for specialisation	76	1	5	4.6	0.747
By outsourcing non-core functions, the bank's staff can concentrate on their core business thus increasing their productivity	76	1	5	4.8	0.911
Outsourcing enables the bank to take advantage of the vendor's pool of resources, competencies and technologies	76	2	5	4.8	0.535
Concentration by the staff on their jobs makes them more innovative and increase the speed of new product introduction in the market	76	2	5	4.4	0.826
Outsourcing allows for differentiation of products through value addition	76	1	5	3.7	1.266
Aggregate Score				**4.5**	**0.857**

Source: Survey data (2017)

The aggregate mean score of 4.5 on the five-point Likert scale with a standard deviation of 0.857 shows that the respondents strongly agreed that competitive advantages were strongly linked to performance of commercial banks. The managers (respondents) supported the

statements that BPO was greatly seen to give commercial banks competitive advantage by allowing the staff to concentrate on their core business thus improving their productivity (Mean=4.8; SD=0.911); taking advantage of the vendor's pool of resources to increase their leverage (Mean= 4.8; SD=0.535); and allowing for specialisation (Mean= 4.6; SD=0.747). These findings are in tandem with Mugi (2011) observation that BPO is a source of competitive advantages that include but not limited to the ability of management to focus on the core business of the bank, flexibility, saving time spent on supervision, allowing access to expert skills and superior resources; both human and technological. This observation by Mugi is also corroborated by the argument of Clarioni and Giustiniano (2011) that BPO saves the staff and especially the management team a lot of time that would have been spent on planning and other logistical issues thus enabling them to concentrate on their core business, which in turn increases their overall productivity. Respondents however indicated that BPO did not strongly promote differentiation of products through value addition (Mean=3.7; SD=1.266).

4.4.6 Organisational Performance of Commercial Banks

This domain comprised non-financial performance and financial performance. However, both domains were Likert type with five points which easily allowed for comparability. Estimates of profitability ratios in the commercial banking sector were obtained from commercial banks reports and were used to enable rating of performance of commercial banks. The ratios were crucial in converting performance measures into Likert items.

4.4.6.1 Non-financial Performance

This performance measure had four domains: customer satisfaction, employee satisfaction, service quality, and cost efficiency. Respondents were required to indicate the extent to which they agreed or disagreed with the statements regarding the influence of BPO on non-financial performance of commercial banks; where 5 represented "Strongly agree" while 1 represented "Strongly disagree". The descriptive statistics for each of these items are reported in Table 4.9.

Table 4. 9: Descriptive Statistics: Non-financial Performance

Non-financial Performance	N	Min	Max	Mean	Std. Dev.
Customer Satisfaction					
Faster resolution of customer issues	76	1	5	3.9	0.925
Enhances customer loyalty/retention	76	2	5	3.9	0.896
High conversion rate of potential customers	76	2	5	3.9	0.975
Increased sales volumes	76	1	5	4.0	1.013
Increased market share	76	2	5	4.1	0.928
More referrals from existing customers	76	2	5	4.1	0.950
Aggregate Score				**4.0**	**0.947**
Employee Satisfaction					
Efficiency in performance of duties	76	2	5	4.0	1.052
Heightened level of innovativeness and creativity	76	2	5	4.0	0.923
Effectiveness in achieving individual as well as organisational objectives/goals	76	2	5	3.9	0.903
Low staff turn-over rates	76	1	5	3.9	0.997
Consumption of bank's products and services by employees	76	1	5	3.6	1.172
Aggregate Score				**3.9**	**1.009**
Service Quality					
Reliability (dependability and accuracy) of service provision	76	1	5	4.1	1.037
Quality assurance through competence, credibility and courtesy of staff	76	1	5	4.1	0.991
Provision of requisite physical facilities	76	1	5	3.8	1.004
Responsiveness to customer needs	76	2	5	4.0	1.102
Security of data and products	76	2	5	3.8	1.060
Aggregate Score				**4.0**	**1.039**

Cost Efficiency					
Reduction in operational costs	76	1	5	3.4	1.298
Elimination of costs associated with installation of infrastructure such as security equipment	76	1	5	3.5	1.397
Allows management and staff to concentrate on their core business	76	1	5	4.4	0.913
Time saving thus allowing internal staff to focus on their primary responsibilities	76	1	5	4.2	0.863
Aggregate Score				**3.9**	**1.118**
Overall aggregate Score				**3.95**	**1.028**

Source: Survey Data (2017)

Results of Table 4.9 show that the aggregate mean score for non-financial performance was 3.95 with a standard deviation of 1.028. This implies that the respondents were in agreement that BPO influences the soft performance of commercial banks. From the descriptive statistics, it is apparent that customer satisfaction (Mean=4.0; SD=0.947) and service quality (Mean=4.0; SD=1.039) are the major benefits of business process outsourcing in commercial banks. It is also evident from the descriptive statistics that BPO in commercial banks improves the efficiency and effectiveness of the management by allowing them to concentrate on their core business (Mean=4.4; SD=0.913), contributes to increased market share (Mean=4.1; 0.928); improves quality assurance (Mean=4.1; SD=0.991), and enhances effectiveness of employees in achieving individual as well as organisational goals (Mean=3.9; SD=0.903).

This finding supports the assertions of various proponents of BPO who link it with positive performance outcomes to organisations such as enabling them to shift focus to their core business and strategic issues by handing off non-core processes to vendors; minimising workload of employees thus improving their productivity, attaining financial economies through cost management, access to new technologies and specialised expertise; improved service levels; competitive advantage; productivity, flexibility, speed, and innovation in developing business applications (Lee & Kim, 2010; Ghikas, 2012; Awino & Mutua, 2014).

4.4.6.2 Financial Performance

This section had three indicators: return on assets (ROA), return on equity (ROE) and net interest margin (NIM). The average industry ratios for the years 2013 to 2016 were obtained and used to form Likert scale items (ROA (0.1% - 4.5%), ROE (8% - 26%), NIM (5% - 12%). This was necessary in order to standardise performance measurement for both financial and non-financial performance. Respondents were required to rate on the Likert scale of 1 to 5 the perceived contribution of BPO to financial performance of their banks on the basis of the criteria below:

Return on Assets

On a scale of 1-5, rate the perceived contribution of BPO to performance of your bank on return on assets (ROA) for the indicated periods (2013-2016) (where: 1= Very low (ROA less than 1%); 2= Low (ROA 1.1 - 2.0%); 3= Moderate (ROA 2.1 - 3.0%); 4= High (ROA 3.1 - 4.0%); 5= high (ROA above 4%).

Return on Equity

On a scale of 1-5, rate the perceived contribution of BPO to the performance of your bank on return on equity (ROE) for the indicated periods (2013-2016) (where: 1= Very low (ROE less than 10%); 2= Low (ROE 11 -15%); 3= Moderate (ROE 16 - 20%); 4= High (ROE 21 - 25%); 5= Very high (ROE above 25%).

Net Interest Margin

On a scale of 1-5, rate the perceived contribution of BPO to performance of your bank on net interest margin (NIM) for the indicated periods (2013-2016).

(Where: 1= Very low (NIM less than 5%); 2= Low (NIM 5.1 - 7.0%); 3= Moderate (NIM 7.1 - 9.0%); 4= High (NIM 9.1 - 11%); 5= Very high (NIM above 11%).

The descriptive statistics for each of these items are reported in Table 4.10.

Table 4. 10: Descriptive Statistics: Financial performance

Financial Performance	N	Min	Max	Mean	Std. Dev.
Return on Assets					
2016	76	1	5	3.6	1.073
2015	76	2	5	3.5	0.796
2014	76	2	5	3.5	0.812
2013	76	2	5	3.5	0.854
Aggregate Score				**3.5**	**0.884**
Return on Equity					
2016	76	1	5	3.6	1.100
2015	76	1	5	3.6	1.000
2014	76	1	5	3.6	0.889
2013	76	1	5	3.6	0.931
Aggregate Score				**3.6**	**0.98**
Net Interest Margin					
2016	76	1	5	3.3	1.231
2015	76	1	5	3.3	1.066
2014	76	2	5	3.6	0.988
2013	76	2	5	3.6	1.045
Aggregate Score				**3.5**	**1.083**
Overall Aggregate Score				**3.53**	**0.982**

Source: Survey Data (2017)

The overall aggregate mean score for financial performance was 3.53 with a standard deviation of 0.982. This result indicates that on average, the respondents attributed business process outsourcing to financial performance of commercial banks in Kenya.

From the three measures of financial performance used in the study, BPO appeared to contribute slightly more to return on equity (Mean=3.6; SD=0.980) compared to return on assets (Mean=3.5; SD=0.884) and net interest margin (Mean=3.5; SD=1.083). The results for

ROE were constant throughout the four years surveyed (Mean=3.6) but with differing standard deviations: 1.100, 1.000, 0.889 and 0.931 for years 2016, 2015, 2014 and 2013 respectively; unlike the other financial measures that registered some fluctuations.

In conclusion, it can be deduced that both non-financial as well as financial measures show that BPO is positively linked to performance of commercial banks in Kenya. These findings support those of a study by Fritsch and Wullenweber (2005) which analysed 137 business process outsourcing ventures at 254 German banks and found that the outsourcer's financial performance in terms of profitability and cost efficiency was increased significantly compared to industry peers without business process outsourcing.

4.5 Pre-Estimation Diagnostics

Ordinary least squares (OLS) were used to estimate regression models 3.1 to 3.7. The use of OLS is anchored on normality, linearity of the variables, homoskedasticity of the error term, tolerance of multicollinearity, sampling adequacy, and reliability of the Likert items and correct specification of the models. This section tests these assumptions to provide for the application of OLS.

4.5.1 Normality test

To test whether the variables were normally distributed, Shapiro-Wilk test for normality was used. The test has a null hypothesis of normality. The results for the normality test are shown in Table 4.11.

Table 4. 11: Normality Test

Variable	Test statistic	
	Z statistic	**P value**
Information Technology Processes Outsourcing	1.825	0.0936
Human Resource Management Processes Outsourcing	2.176	0.0601
Marketing Processes Outsourcing	1.007	0.0715
Security Processes Outsourcing	2.421	0.1783
Performance	2.190	0.2642
Competitive Advantage	0.643	0.5371
Organisational Characteristics	2.530	0.0838

Source: Survey Data (2017)

The p-values reported for the variables in Table 4.11 are all greater than 0.05 meaning that the Z statistics are less than their critical values at five per cent level of significance. Therefore, the null hypothesis assumed by the Shapiro Wilk normality test that the variables are normally distributed could not be rejected at five per cent level of significance. Therefore, ordinary least squares can be applied on the data and reliability tests requiring normality of the data such as t-tests.

4.5.2 Test for Linearity

To test whether the variables were linearly related, Pearson's correlation coefficient was used. The test had a null hypothesis of no linear association. The test statistics for linear associations between the variables and their significance is shown in Table 4.12.

Table 4. 12: Linearity Test

Reference Variable: Bank Performance	Test statistics	
	Correlation Coefficient	P value
Information Technology Processes Outsourcing	0.316	0.006
Human Resource Management Processes Outsourcing	0.891	0.000
Marketing Processes Outsourcing	0.946	0.000
Security Processes Outsourcing	0.184	0.000
Competitive Advantage	0.324	0.000
Organisational Characteristics (Bank Size)	0.408	0.000

Source: Survey Data (2017)

Table 4.12 shows that p-values for the correlation coefficients are less than 0.05. Therefore, the calculated test statistic is greater than the tabulated test statistic at five per cent level of significance. Thus, the null hypothesis that the correlation coefficients are equal to zero is rejected at five per cent level of significance. The correlation coefficients for all the explanatory variables are positive meaning that bank performance and the explanatory variables can move in the same direction. Hence, positive regression coefficients are expected between performance and the explanatory variable.

4.5.3 Bartlett's Test of Internal consistency

To test internal consistency of the items used in the structured questionnaire to measure the various domains, Bartlett's Test of Sphericity was used. The test has a null hypothesis of no internal consistency (inter-correlated). Failure to reject the null hypothesis means that the principal components that measure a particular domain have to be found through factor analysis. However, rejection of the null means that all the items are internally consistent and their composites can be used to measure the variable in question. The test statistics are shown in Table 4.13.

Table 4. 13: Bartlett's Test

Variable	Degrees of freedom	Test statistic	
		Chi Square	P value
Information Technology Processes Outsourcing	120	688.2	0.000
Human Resource Management Processes Outsourcing	190	1017.0	0.000
Marketing Processes Outsourcing	171	1341.9	0.000
Security Processes Outsourcing	36	217.1	0.000
Competitive Advantage	15	139.4	0.000
Organisational Characteristics	28	763.3	0.000
Performance	190	931.7	0.000

Source: Survey Data (2017)

The Bartlett's Test of Sphericity test statistics in Table 4.13 show that the p-values in all the domains are less than 0.05. Thus, the calculated Chi statistics are greater than tabulated Chi statistics at five per cent level of significance. Hence, the null hypothesis of no inter-correlation between the items of each dimension in the structured questionnaire is rejected. This implies that there is internal consistency between the items of each dimension in the structured questionnaire. Therefore, simple means for Likert items from each dimension of the structured questionnaire could be used as composites for each variable without use of factor analysis.

4.5.4 Test of Sampling Adequacy

To test whether the sample was adequate for data analysis, Kaiser-Meyer-Olkin (KMO) measure was used. KMO measure varies between 0 and 1, and values closer to 1 are better with a threshold of 0.5 (Williams, Brown & Onsman, 2012). The KMO test statistics are shown in Table 4.14.

Table 4. 14: KMO Test

Variable	KMO Tests Statistics
Information Technology Processes Outsourcing	0.793
Human Resource Management Processes Outsourcing	0.835
Marketing Processes Outsourcing	0.897
Security Processes Outsourcing	0.670
Competitive Advantage	0.766
Organisational Characteristics	0.823
Performance	0.828

Source: Survey Data (2017)

Table 4.14 shows that all the KMO test statistics were greater than 0.5. Thus, the sample used by the study was adequate and representative of the study population. Therefore, findings from the study can be generalised on the entire population of commercial banks in Kenya.

4.5.5 Test for Heteroskedasticity (Homoscedasticity)

The application of OLS is anchored on the assumption of constant variance in the error term. Violation of this assumption implies that the usual t-tests cannot be used to test the rejection or failure to reject the null hypothesis. To test for the assumption of constant variance, Breusch Pagan test was used. The test statistics for the various models are reported in Table 4.15.

Table 4. 15: Test for Heteroskedasticity

Model	Test statistic	
	Chi statistic	P value
Model 3.1	0.45	0.5044
Model 3.2	1.09	0.2968
Model 3.3	4.48	0.0742
Model 3.4	4.15	0.0912
Model 3.5	1.01	0.3145
Model 3.6	1.09	0.2968
Model 3.7	0.97	0.3248
Model 3.8	0.04	0.8410

Source: Survey Data (2017)

The p-values reported for the variables in Table 4.15 are all greater than 0.05 for all the models. This means that the Chi statistics are less than their critical values at five per cent level of significance. Therefore, the null hypothesis assumed by the Breusch Pagan test that the error term is homoskedastic could not be rejected at five per cent level of significance. Therefore, the usual t-tests can be used to test the significance of all the coefficients in all the models.

4.5.6 Specification Test

To apply OLS, the linear models need not be under- or over-specified. The models need not omit or include excess variables. To test whether the models were correctly specified, Ramsey specification test was used. The test has a null hypothesis of correct specification. The test statistics for all the models are reported in Table 4.16.

Table 4. 16: Specification Test

Model	Test statistic	
	F statistic	P value
Model 3.1	0.10	0.9614
Model 3.2	2.85	0.0566
Model 3.3	0.69	0.5594
Model 3.4	4.14	0.0790
Model 3.5	0.55	0.6514
Model 3.6	2.85	0.0566
Model 3.7	2.85	0.0678
Model 3.8	0.62	0.6071

Source: Survey Data (2017)

The p-values reported for the variables in Table 4.16 are all greater than 0.05 for all the models. This means that the F statistics are less than their critical values at five per cent level of significance. Therefore, the null hypothesis assumed by the Ramsey Specification test that

the model is well specified could not be rejected at five per cent level of significance. Therefore, the findings from the models had no omission or inclusion of variables bias.

4.5.7 Test for Multicollinearity

To apply OLS, the linear models with more than one variable need to have a tolerable level of multicollinearity. This is measured using variance inflation factor (VIF). A VIF of more than 10 indicates a problem with multicollinearity. Tolerance Statistics of less than 0.1 indicate a serious problem while those below 0.2 indicate a potential problem (Myers, 1990). As a rule of the thumb, a VIF of less than five is considered an acceptable level of multicollinearity. Table 4.17 reports the VIF values for the models susceptible to multicollinearity.

Table 4. 17: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	**Variance Inflation Factor (VIF)**
Model 3.1	0.49	2.04
Model 3.5	0.23	4.38
Model 3.7	0.93	1.08
Model 3.8	0.32	3.16
Mean Values	**0.49**	**2.67**

Source: Survey Data (2017)

Results in Table 4.17 show that all the models susceptible to multicollinearity had VIF values of less than 5. Indeed, the VIF aggregate mean of 2.67 which was much less than 5 and tolerance value of more than 0.1 meant that the level of multicollinearity in all these models could be tolerated and the findings interpreted.

4.6 Hypothesis Testing

This section presents the test of the various study hypotheses. The study was based on the premise that business process outsourcing affects performance of commercial banks and this relationship is mediated by competitive advantages and moderated by organisational characteristics. The variables under study were regressed on performance indicators and a composite performance measure computed to reflect overall organisational performance. In order to establish the statistical significance of the hypothesised relationships among variables, simple and multiple linear regressions were conducted at 95 per cent confidence level (α=0.05). The results were interpreted according to the adjusted R^2 at $P \leq 0.005$. The findings are presented based on the six research hypotheses. To test hypotheses one through four, model 3.1 was estimated. Table 4.18 reports these findings.

4.6.1 Test of Direct Relationship

The findings of the multiple linear regressions testing the direct relationships between information technology outsourcing, human resource management outsourcing, marketing processes outsourcing and security services outsourcing (BPO) and organisational performance of commercial banks in Kenya are summarised in Table 4.18.

Table 4. 18: Effect of Business Process Outsourcing on Bank Performance

Post Estimation Diagnostics		
	Test Statistic	**P-value**
Adjusted R-squared	0.9655	
R-squared	0.9680	
F-statistic (4, 52)	393.28	0.000***
Breusch-Pagan Test (Heteroskedasticity)	0.45	0.5044
Ramsey Specification test	0.10	0.9614
Mean VIF	2.04	
Dependent Variable=Bank Performance	**Regression results**	
	Coefficients	**t-statistic**	**P-value**
Information Technology Processes Outsourcing	0.017***	2.98	0.004
Human Resource Management Processes Outsourcing	0.076***	8.62	0.000
Marketing Processes Outsourcing	0.122***	15.84	0.000
Security Processes Outsourcing	0.016**	2.17	0.034
Constant	1.572***	46.48	0.000
Key	** significant at 5 per cent		
	*** significant at 1 per cent		

Source: Survey Data (2017)

Results in Table 4.18 yielded an adjusted R-squared of 0.9655 meaning that components of business process outsourcing jointly explained 96.55 per cent of the variations in bank performance. The F statistic was 393.3 with a P-value of 0.0000 implying that outsourcing information technology processes, human resource management processes, marketing processes and security processes were jointly significant in explaining variations in bank performance. The Breusch Pagan statistic of 0.45 with a P-value of 0.5044 meant that the t statistics and p-values could reliably be used to test the significance of coefficients in the model;

$$P_i = \beta_0 + \beta_1 ITO_i + \beta_2 HRMO_i + \beta_3 MPO_i + \beta_4 SPO_i + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots (3.1)$$

The resultant regression equation from this output is:-

Bank performance = 1.572 + 0.017ITO_i + 0.076$HRMO_i$ + 0.0122MPOi + 0.016SPO_i

4.6.2 Test of Hypothesis One

The first objective sought to determine the effect of outsourcing information technology processes on performance of Commercial Banks in Kenya. To this end the following null hypothesis was tested.

H_{01}: Outsourcing information technology processes has no effect on organisational performance of commercial banks in Kenya.

Results in Table 4.18 show that the coefficient of outsourcing information technology processes was 0.017 with a t statistic of 2.98 and a corresponding p-value of 0.004. Since the p-value is less than 0.05, the calculated t is greater than the critical value at five per cent level of significance and therefore the null hypothesis is rejected. This implies that outsourcing information technology processes has significant positive effect on bank performance in Kenya. The magnitude of the coefficient of outsourcing information technology processes is 0.017. This implies that a unit increase in outsourcing information technology processes leads to 0.017 increase in bank performance. This finding is consistent with the empirical findings of Wang *et al.* (2008); Yu (2010); Baldwin & Iran (2011); and Suuman & Jain (2011) that ITO enhances organisational performance.

Wang *et al.* (2008) by taking a resource-based perspective observed the complementary role of firm's information technology capability in the value creation of information technology outsourcing concluded that firms with superior IT capability enhanced their value more by outsourcing. Porter (1985) and Barney (1991) have also opined that information technology

outsourcing is a source of competitive advantage that gives an organisation the ability to outperform competitors. Further, empirical findings of a study by Kakabadse and Kakabadse (2003) which surveyed IT companies in Malaysia also found that outsourcing non-core processes resulted to reducing costs and building competitive advantage. Judge *et al*. (2009) also observed that information technology outsourcing gives an organisation the necessary flexibility in responding to the rapid business environmental changes.

On the flipside, an empirical study by Yu (2010) on the relationship between IT outsourcing and firm performance in the banking industry using objective accounting measures such as ROA, ROE, ROI and NIM as firm-level performance measures concluded that IT outsourcing does not enhance firm performance of banks. However, he noted that IT outsourcing may not have significant impact on firm performance using accounting-based financial measures, but when using more sophisticated performance measurement systems such as the Balanced Scorecard (BSC) and Skandia Navigator, which includes both accounting measures as well as other soft measures, one might find that IT outsourcing actually have significant positive influence on firm performance as a whole.

4.6.3 Test of Hypothesis Two

The second objective sought to examine the effect of outsourcing human resource management processes on performance of Commercial Banks in Kenya. To this end the following null hypothesis was tested.

H_{02}: Outsourcing human resource management processes has no effect on organisational performance of commercial banks in Kenya.

From Table 4.18, the coefficient of human resource management processes is 0.076 with a t statistic of 8.62 and a corresponding p-value of 0.000. The p-value is less than 0.05 and therefore the null hypothesis is rejected implying that outsourcing human resource management processes has significant positive effect on bank performance in Kenya. The magnitude of the coefficient of outsourcing human resource management processes is 0.076 meaning that a unit change in outsourcing human resource management processes leads to 0.076 increase in bank performance.

This finding is consistent with Muga (2014) research findings that HRM outsourcing had a positive effect on performance of Kenya Commercial Bank. Furthermore, the same finding is supported by the empirical study by Gilley, Greer and Rasheed (2004) that analysed the relationship between outsourcing of human resource activities and firm performance and found that they were positively correlated. They found that outsourcing of human resource processes like training and development, recruitment and selection, performance management through external appraisal saves the staff time to focus on their core duties thus improving their productivity and the overall performance of the organisation. However, the study findings are at variance with those of a study by Mohapatra (2012) on HRM outsourcing in the banking sector that found no effect of HRM outsourcing on the performance of banks in India.

4.6.4 Test of Hypothesis Three

The third objective sought to establish the effect of outsourcing marketing processes on performance of commercial banks in Kenya. Consequently, the following null hypothesis was tested.

H_{03}: Outsourcing marketing processes has no effect on organisational performance of commercial banks in Kenya.

The coefficient of outsourcing marketing processes is 0.122 with a t statistic of 15.84 and a corresponding p-value of 0.000 as shown in Table 4.26. Since the p-value is less than 0.05, the calculated t is greater than the critical value at five per cent level of significance. Therefore, the null hypothesis is rejected implying that outsourcing marketing processes has significant positive effect on bank performance in Kenya. The magnitude of the coefficient of outsourcing marketing processes is 0.122 implying that a unit change in outsourcing marketing processes results to 0.122 increase in bank performance.

The positive relationship between marketing processes outsourcing and bank performance is supported by the findings of Chumba, Chepkwony, Tum (2015) and Alexander (2012) who established a significant relationship between outsourcing of marketing processes and performance. The finding also agree with the observations of Klaas, McClendon, and Gainey (2001) that marketing outsourcing affects organisational performance by improving its market position, reducing costs, and improving overall quality. They observe that marketing outsourcing allow organisations to gain new knowledge, access new markets, establish traction in the industry, reduce the threats and barriers of competition, enhance resource efficiency, and acquire new skills. Burden and Li (2005) also observe that outsourcing of marketing processes frees up resources for re-allocation toward core business activities to better serve organisational goals.

4.6.5 Test of Hypothesis Four

The fourth objective sought to examine the effect of outsourcing security processes on performance of commercial banks in Kenya. To achieve this objective, the following null hypothesis was tested.

H_{04}: Outsourcing security processes has no effect on organisational performance of commercial banks in Kenya.

Table 4.18 shows that the coefficient of outsourcing security processes is 0.016 with a t statistic of 2.17 and a corresponding p-value of 0.034. Since the p-value is less than 0.05, the null hypothesis is rejected. This implies that outsourcing security processes has significant positive effect on bank performance in Kenya. The magnitude of the coefficient of outsourcing security processes is 0.016. Therefore, a unit change in the score of outsourcing security processes leads to 0.016 increase in bank performance.

This finding is consistent with findings of a study by Mimano (2014) that found cash management services outsourcing had a positive effect on performance of commercial banks in Kenya. Specifically, the study established a strong positive relationship (R^2= 0.665) between cash management services outsourcing and performance of commercial banks. Moreover, the finding corroborates the observations of Stevens (2016) and Ricci (2006) that outsourcing security processes helps organisations to stay competitive by focusing on their core functions, transferring some of the liability risk to the security guard companies, and getting world-class security at a fraction of the price it would cost an organisation to do it by itself.

4.6.6 Test of Hypothesis Five

The fifth objective of the study sought to assess the mediating effect of competitive advantage on the relationship between business process outsourcing and performance of commercial banks in Kenya. Consequently, the following null hypothesis was tested.

H_{05}: Competitive advantage has no mediating effect on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

To test this hypothesis, four regressions were estimated following Baron and Kenny (1986) approach.

Step one: The first regression involved establishment of the effect of business process outsourcing on bank performance as put forward in model 3.2.

$$P_i = \beta_0 + \beta_5 BPO_i + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.2)$$

The findings are reported in Table 4.19.

Table 4. 19: Regression Results for Model 3.2

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
R-squared	0.5801		
F-statistic (1, 52)	71.85***	0.000	
Breusch-Pagan Test (Heteroskedasticity)	1.09	0.2968	
Ramsey Specification test	2.85	0.0566	
Mean VIF	1.000		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business process Outsourcing	3.091***	8.48	0.000
Constant	-2.864	-1.97	0.055
Key	** significant at 5 per cent *** significant at 1 per cent		

Source: Survey Data (2017)

Following the results from Table 4.19, the following is the resultant equation;

Bank performance = -2.864 + 3.091BPO_i + ε …….3.2 (a)

Where;

-2.864 = Y-intercept (constant)

3.091 = an estimate of expected change in performance corresponding to an increase in BPO.

Results in Table 4.19 show that business process outsourcing explained 58.01 per cent of variations in bank performance while the rest were explained by the residuals. The coefficient of business process outsourcing is 3.091 with a t statistic of 8.48 and corresponding p-value of 0.000. Since the p-value is less than 0.05, the null hypothesis that the coefficient of business process outsourcing is zero is rejected at five per cent. Therefore, there is a positive significant relationship between business process outsourcing and bank performance.

Step two involved estimation of model 3.3 by regressing competitive advantage against business process outsourcing.

$CA_i = \beta_0 + \beta_5 BPO_i + \varepsilon$ …… (3.3)

The findings are reported in Table 4.20.

Table 4. 20: Regression Results for Model 3.3

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
R-squared	0.1392		
F-statistic (1, 55)	8.89***	0.004	
Breusch-Pagan Test (Heteroskedasticity)	4.48	0.0742	
Ramsey Specification test	0.69	0.5594	
Mean VIF	1.00		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business process Outsourcing	0.385***	2.98	0.004
Constant	2.768***	5.38	0.000
Key	** significant at 5 per cent		
	*** significant at 1 per cent		

Source: Survey Data (2017)

Following the results in Table 4.20, the following is the resultant equation;

Competitive Advantage = 2.768 + 0.385BPO_i + ε …… 3.3 (a)

Where;

2.768 = Y-intercept (constant)

0.385 = an estimate of expected change in competitive advantage corresponding to an increase in business process outsourcing.

Results in Table 4.20 show that business process outsourcing explains 13.92 per cent of variations in bank performance while the rest are explained by the residuals. The coefficient of business process outsourcing is 0.385 with a t statistic of 2.98 and corresponding p-value of 0.004. The p-value is less than 0.05 and therefore the calculated t is greater than the critical value at five per cent level of significance. Consequently, the null hypothesis that the coefficient of business process outsourcing is zero is rejected. Therefore, there is a positive significant relationship between business process outsourcing and competitive advantage.

Step three involved estimation of model 3.4; a regression of bank performance against competitive advantage.

$$P_i = \beta_0 + \beta_6 CA_i + \varepsilon \quad \text{...} \quad (3.4)$$

The findings are reported in Table 4.21.

Table 4. 21: Regression Results for Model 3.4

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
R-squared	0.5954		
F-statistic (1, 52)	76.53***	0.000	
Breusch-Pagan Test (Heteroskedasticity)	4.15	0.0912	
Ramsey Specification test	4.14	0.0790	
Mean VIF	1.00		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Competitive Advantage	3.016***	8.75	0.000
Constant	-3.523**	-2.37	0.022
Key	** significant at 5 per cent		
	*** significant at 1 per cent		

Source: Survey Data (2017)

Following the results in Table 4.21, the following is the resultant equation;

Bank performance = -3.523 + 3.016 Competitive Advantage ……………………. 3.4 (a)

Where;

-3.523 = Y-intercept (constant)

3.016 = An estimate of expected change in bank performance corresponding to an increase in competitive advantages.

Results in Table 4.21 show that competitive advantage had a coefficient of determination of 0.5954. This means that competitive advantage explained 59.54 per cent of variations in bank performance. The coefficient of competitive advantage is 0.385 with a t statistic of 8.75 and corresponding p-value of 0.000 and therefore the null hypothesis that the coefficient of

competitive advantage is zero is rejected. This means that there is a positive significant relationship between competitive advantage and bank performance.

Fourth step involved estimating model 3.5. However, the estimation was dependent on all the relationships in models 3.2, 3.3, and 3.4 being significant. Tables 4.19, 4.20 and 4.21 show that the relationships in model 3.2, 3.3 and 3.4 are all significant. Therefore, model 3.5 can be estimated.

$$P_i = \beta_0 + \beta_5 BPO_i + \beta_6 CA_i + \varepsilon \text{ ……………………………………………… } (3.5)$$

Model 3.5 estimates are reported in Table 4.22.

Table 4. 22: Regression Results for Model 3.5

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
Adjusted R-squared	0.9461		
R-squared	0.9842		
F-statistic (2, 51)	466.32***	0.000	
Breusch-Pagan Test (Heteroskedasticity)	0.63	0.4258	
Ramsey Specification test	0.58	0.6329	
Mean VIF	2.58		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business process Outsourcing	-0.002	-0.01	0.994
Competitive Advantage	0.088	19.03	0.000
Constant	3.300***	5.41	0.000
Key	** significant at 5 per cent		
	*** significant at 1 per cent		

Source: Survey Data (2017)

The following is the resultant equation following the results in Table 4.22;

Bank performance = -0.002 + 0.109*BPO*$_i$ + 0.088 *CA*$_i$ + ε …………….. 3.5 (a)

Where;

3.300 = Y-intercept (constant)

-0.002 = an estimate of expected change in bank performance corresponding to an increase in business process outsourcing.

0.088 = an estimate of expected change in bank performance corresponding to an increase in business competitive advantage.

The coefficients of interest in model 3.5 are those of business process outsourcing and competitive advantage. Table 4.22 shows that the coefficient of business process outsourcing is -0.002 with a t statistic of -0.01 and corresponding p-value of 0.994 after controlling for competitive advantage. Since the p-value is greater than 0.05, the calculated t is less than the critical value at five per cent level of significance and the null hypothesis that the coefficient of competitive advantage is zero is therefore not rejected. Table 4.22 further shows that the coefficient of competitive advantage is 0.088 with a t statistic of 19.03 and corresponding p-value of 0.000. Since the p-value is less than 0.05, the null hypothesis that the coefficient of competitive advantage is zero is therefore rejected at five per cent level of significance.

When these findings are simultaneously considered with those in model 3.2, 3.3, and 3.4; scenario two, complete mediation, in Table 3.1 is satisfied. Thus, the null hypothesis:

H_{05}: Competitive advantage has no mediating effect on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya; is rejected at five per cent level of significance. This implies that competitive advantage completely mediates the relationship between business process outsourcing and performance of commercial banks in Kenya. The decision criteria for mediation are summarised on Table 4.23.

Table 4. 23: Summary of the Mediating Effect of Competitive Advantages on Bank Performance

Analysis	R2	Beta	P-value	Significance
Step One: $Pi = \beta 0 + \beta 5BPO_i + \varepsilon$	0.5801	3.091	0.000	Significant
Step Two: $CA_i = \beta_0 + \beta_5 BPO_i + \varepsilon$	0.1392	0.385	0.004	Significant
Step Three: $P_i = \beta_0 + \beta_6 CA_i + \varepsilon$	0.5954	3.016	0.000	Significant
Step Four: $P_i = \beta_0 + \beta_5 BPO_i + \beta_6 CA_i + \varepsilon$	0.9492	0.082	0.000	Significant

Source: Survey Data (2017)

The finding that competitive advantage mediates the relationship between business process outsourcing and performance of commercial banks dovetails with that of Clarioni and Giustiniano (2011) whose longitudinal study spanning 84 companies established that business process outsourcing was a source of competitive advantage for organisations. Their study found that outsourcing enables organisations to gain access to superior resources, both financial and human; specialist skills, and state-of-the-art technology thus improving service quality, efficiency and effectiveness. Their findings also concurred with those of Mugi (2011) whose study on business process outsourcing strategy and competitive advantage in commercial banks in Kenya established that BPO was a source of competitive advantages which eventually led to performance. However, although Clarioni and Giustiniano (2011) found some relationship between competitive advantage and bank performance, their study also established that outsourcing didn't necessarily lead to cost reduction as is expected in many outsourcing arrangements. This contrarian finding appears to find support from Udo (2000) whose study concluded that although business process outsourcing is related to improving a

firm's competitive position in today's business environment, the amount of business processes outsourced by a company is not linearly related to competitiveness.

4.6.7 Test of Hypothesis Six

The sixth objective of the study sought to assess the moderating effect of organisational characteristics on the relationship between business process outsourcing and performance of commercial banks in Kenya. The following null hypothesis was tested.

H_{06}: Organisational characteristics have no moderating effect on the relationship between business process outsourcing and performance of commercial banks in Kenya.

To test this hypothesis, three regressions were estimated using the Whisman and McClelland (2005) three-step approach to test for moderation and predict equations 3.2, 3.6, and 3.7. In the first step, the composite index of business process outsourcing measures (independent variable) was regressed on bank performance measures (dependent variable). The first regression involved establishment of the effect of business process outsourcing on bank performance as put forward in the baseline model 3.2 in order to determine whether there was any relationship to be moderated or not.

$$P_i = \beta_0 + \beta_5 BPO_i + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.2)$$

The findings are reported in Table 4.24.

Table 4. 24: Regression Results for Model 3.2

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
R-squared	0.5801		
F-statistic (1, 52)	71.85***	0.000	
Breusch-Pagan Test (Heteroskedasticity)	1.09	0.2968	
Ramsey Specification test	2.85	0.0566	
Mean VIF	1.000		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business process Outsourcing	3.091***	8.48	0.000
Constant	-2.864	-1.97	0.055
Key	** significant at 5 per cent *** significant at 1 per cent		

Source: Survey Data (2017)

Following the results in Table 4.24, the following is the resultant equation;

Bank performance = -2.864 + 3.091 BPO_i + ε …… 3.2 (a)

Where;

-2.864 = Y-intercept (constant)

3.091 = An estimate of expected change in bank performance corresponding to an increase in Business process outsourcing.

Table 4.24 shows that business process outsourcing explains 58.01 per cent of variations in bank performance while the rest are explained by the residuals. The coefficient of business process outsourcing is 3.091 with a t statistic of 8.48 and corresponding p-value of 0.000. Since the p-value is less than 0.05, the null hypothesis that the coefficient of business process outsourcing is zero is therefore rejected. Consequently, this means that there is a positive

statistically significant relationship between business process outsourcing and bank performance.

The second step involved estimation of model 3.6; a regression of bank performance against business process outsourcing and organisational characteristics in order to establish whether organisational characteristics are a predictor variable or a moderator.

$P_i = \beta_0 + \beta_5 BPO_i + \beta_7 0C_i + \varepsilon$ ……………………………………………… *(3.6)*

The findings are reported in Table 4.25.

Table 4. 25: Regression Results for Model 3.6

Post Estimation Diagnostics			
	Test Statistic	**P-value**	
Adjusted R-squared	0.6004		
R-squared	0.6160		
F-statistic (2, 49)	39.31***	0.000	
Breusch-Pagan Test (Heteroskedasticity)	0.97	0.3248	
Ramsey Specification test	2.85	0.0678	
Mean VIF	1.08		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business Process Outsourcing	2.955***	8.18	0.000
Organisational characteristics	0.306	1.13	0.265
Constant	-3.052**	-2.18	0.034
Key	** significant at 5 per cent		
	*** significant at 1 per cent		

Source: Survey Data (2017)

Following the results from Table 4.25, the following is the resultant equation;

Bank performance $= -3.052 + 2.955BPO_i + 0.306OC_i + \varepsilon$ ………………………….. *3.6 (a)*

Where;

-3.052= Y-intercept (constant)

2.955 = An estimate of expected change in bank performance corresponding to an increase in

business process outsourcing.

0.306 = An estimate of expected change in bank performance corresponding to an increase in organisational characteristics

The coefficients of interest in model 3.6 are those of business process outsourcing and organisational characteristics. Table 4.25 shows that the coefficient of organisational characteristics is 0.306 with a t statistic of 1.13 and corresponding p-value of 0.265. Since the p-value is greater than 0.05, the calculated t is less than the critical value at five per cent level of significance. The null hypothesis that the coefficient of organisational (bank size) is zero, is therefore, not rejected at five per cent. Thus, bank size is not an explanatory variable for bank performance. Thus model 3.7 testing whether bank size as a moderator can be estimated.

$$P_i = \beta_0 + \beta_5 BPO_i + \beta_7 0C_i + \beta_8 BPO_i * 0C_i + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \; (3.7)$$

The estimation of model 3.7 is reported in Table 4.26.

Table 4. 26: Model 3.7 Estimation Results

Post Estimation Diagnostics			
	Test Statistic		**P-value**
Adjusted R-squared	0.7373		
R-squared	0.7527		
F-statistic (3, 48)	48.70***		0.000
Breusch-Pagan Test (Heteroskedasticity)	0.04		0.8410
Ramsey Specification test	0.62		0.6071
Mean VIF	3.16		
Regression results			
	Coefficients	**t-statistic**	**P-value**
Business Process Outsourcing	1.635***	4.20	0.000
Organisational characteristics (bank size)	-1.241***	-3.33	0.002
Business Process outsourcing × Organisational characteristics	0.093***	5.15	0.000
Constant	2.320	1.50	0.139
Key	** significant at 5 per cent *** significant at 1 per cent		

Source: Survey Data (2017)

Following the results from Table 4.26, the following is the resultant equation;

$$\textit{Bank Performance} = 2.320 + 1.635BPO_i - 1.241OC_i + 0.093OC_i*BPO_i + \varepsilon \ldots\ldots\ldots 3.7\ (a)$$

Where;

2.320 = Y-intercept (constant)

1.635 = an estimate of expected change in bank performance corresponding to an increase in business process outsourcing.

-1.241 = an estimate of expected change in bank performance corresponding to an increase in business organisational characteristics (bank size).

0.093 = an estimate of expected change in bank performance corresponding to the interaction of organisational characteristics (bank size) and business process outsourcing.

The coefficients of interest in model 3.7 are those of business process outsourcing and its interaction with organisational characteristics. Table 4.26 shows that the coefficient of business process outsourcing is 1.635 with a t statistic of 4.20 and corresponding p-value of 0.000. Since the p-value is less than 0.05, the calculated t is greater than the critical value at five per cent level of significance. The null hypothesis that the coefficient of business process outsourcing is zero is therefore rejected.

Table 4.26 further shows that the coefficient of the interaction between business process outsourcing and organisational characteristics (bank size) is 0.093 with a t statistic of 5.15 and corresponding p-value of 0.000. Since the p-value is less than 0.05, the null hypothesis that the coefficient of the interaction between business process outsourcing and organisational characteristics is zero is therefore rejected at five per cent. These findings imply that bank size

moderates the relationship between business process outsourcing and performance of commercial banks in Kenya. Thus, the null hypothesis:

H_{06}: Organisational characteristics have no moderating effect on the relationship between business process outsourcing and performance of commercial banks in Kenya; is rejected at five per cent level of significance. The decision criteria for moderation are shown in Table 4.27.

Table 4. 27: Summary of the Moderating effect of Organisational Characteristics on Bank Performance

Model	R^2	Adjusted R^2	Beta	P-value	Significance
Model 3.2	0.5801		3.091	0.000	Significant
Model 3.6	0.6160	0.6004	0.306	0.265	Not significant
Model 3.7	0.7527	0.7373	0.093	0.000	Significant

Source: Survey Data (2017)

In conclusion, this means that bank size (organisational characteristics) plays a major role in influencing BPO decisions in the commercial banks. This finding is supported by Barako and Gatere (2008) whose study on outsourcing practices of the Kenyan banking sector established that the size of a commercial bank was strongly associated with outsourcing practices and decisions. Further, a study by Opler and Titman (1994) concluded that organisation-specific (organisational characteristics) are major determinants of the operating performance, and are the main drivers for competitive advantage which is crucial for surviving economic downturns. Mohd (2005) also argues that organisational characteristics play a critical role in determining the overall performance of the organisation. The same finding is shared by Wiklund and Shepherd (2005) who observed that firms that are able to align firm attributes

with the characteristics of the environment outperform other firms. The finding is further corroborated by Dean, Bülent and Christopher (2000) who concluded that firm characteristics are essential determinants of firm performance and success.

4.7 Qualitative Data Analysis

This analysis comprised of opinions of respondents concerning their views on the drawbacks of outsourcing various bank's processes. The outsourced processes included; information technology, human resource management, marketing and security.

4.7.1 Drawbacks of Outsourcing Information Technology Processes in Commercial Banks in Kenya

Respondents indicated that although information technology outsourcing contributed highly to the performance of commercial banks, it was also laden with a number of drawbacks: cybercrime such as phishing, which involves trying to defraud customers by accessing their confidential information; IT experts that have access to customer banking data can steal directly from their accounts; ITO can result into compromising of customer data confidentiality; theft of crucial bank information by IT vendors which can be used against the bank; risks associated with hacking of bank's systems that can result to huge losses; possibility of leaking of critical bank's information or data to competitors in case of internet security lapses where a vendor is serving many similar clients or in case of unethical behaviour on the part of the vendor, and the risk of some vendors working in cahoots with criminals can result into huge losses. Respondents also pointed out that by outsourcing some IT processes, there is the opportunity cost incurred by failure to develop some internal processes that can jeopardise

the functions of commercial banks in cases of emergency. Some of the responses provided by respondents include;

“With rising cases of virtual fraud, outsourcing of IT processes increases the risk of phishing leading to loss of funds for both commercial banks as business entities and also for individual customers”.

“Unethical behaviour on the side of the vendor can result to financial losses thus increasing the risk of outsourcing IT processes”. Another respondent opined that, “Outsourcing IT processes predisposes the bank’s network to hacking in cases of virtual security lapses on the side of the vendor”.

4.7.2 Drawbacks of Outsourcing Human Resource Management Processes in Commercial Banks in Kenya

On the question of whether there are drawbacks associated with outsourcing human resource management processes, many respondents responded in the affirmative citing loss of the opportunity to develop up-to-date internal databases of potential employees and existing employees suited for specific promotion positions; forfeiture of the learning curve effect, demoralisation of employees in the event of management positions being filled with outsiders by the vendor; loss of the opportunity to develop internal capacity building in the areas of training and manpower development. Some respondents opined that, “By outsourcing HRM processes, the bank’s HR department cedes its role of developing staff in-house for promotion purposes, which can be demoralising to employees.” Another respondent observed, “Outsourcing HRM processes such as training and development denies the HR department the opportunity to develop training and development capabilities in-house and relying on external

consultancy firms can be expensive in the long-run." Another respondent indicated, "Outsourcing of HR functions such as recruitment can lead to loss of institutional memory (tacit knowledge) where long-serving employees miss promotion opportunities and leave the bank."

It was also pointed out that some companies release some of their employees to work for their rivals in order to steal their company secrets or strategies. Some respondents noted that such situations can easily arise where recruitment has been outsourced. Some respondents were of the view that recruitment by internal HR department could forestall such ugly eventualities. Other respondents were of the view that performance of some HRM processes by vendors such as recruitment and training would be expensive in the long-run.

4.7.3 Drawbacks of Outsourcing Marketing Processes in Commercial Banks in Kenya

Concerning the demerits of outsourcing marketing processes, many respondents cited various drawbacks including the following: revealing of too much bank's information to the marketing agencies can be counter-productive in the long-run, sharing of bank's marketing strategy to the vendor can easily leak to other competitors especially where ethical standards are not upheld, risk of compromising confidentiality of customer information, mismatch between costs incurred on contracting external marketing agencies and costs of using internal marketing teams. One respondent observed, "Outsourcing marketing processes to marketing agencies is risky as they also work for competitors and bank's strategies can easily leak to competitors in instances where marketing ethics are not strictly adhered to by the contracted agencies". Another respondent opined that; "Marketing outsourcing can easily give access to confidential customer information to vendors which is unethical." Additionally, some respondents were of

the view that costs of outsourcing some marketing processes do not translate into more customers or increased market share. Respondents also pointed out that by outsourcing marketing research; the bank loses the opportunity of developing its own team of marketing research experts who would be hands-on in monitoring the business trends in the banking sector.

4.7.4 Drawbacks of Outsourcing Security Processes in Commercial Banks in Kenya

It is imperative to note that although outsourcing security processes was the most favoured in terms of its contribution to bank performance; and also received the lowest score in terms of those who felt it had any drawbacks, the minority (47.4 per cent) who answered in the affirmative indicated that outsourcing security processes had some demerits that include the following: collusion of some vendor's agents such as security guards with criminals and sometimes with internal staff to steal cash from the banks they were contracted to protect; revealing of banks' security arrangements to vendors which can be used by unethical security guards against them. One striking response was, "Some security firms have been involved variously in financial fraud and therefore outsourcing security processes such as cash transit management to such security vendors is a huge risk for the bank."

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusions drawn from the study findings, contributions of the study to knowledge, recommendations and suggestions for further research.

5.2 Summary

Globally, the banking industry has been struggling to recover from the 2007-2008 financial crises which started in the developed economies in the US and Europe and later cascaded through ripple effect to developing economies eventually affecting performance of the banking industry (World Bank, 2017; IMF, 2017). In Kenya, commercial banks have been contending with numerous performance challenges which include but not limited to customer dissatisfaction arising from high bank credit interest rates which resulted to the government intervention in the year 2016 through its legislative arm to cap bank interest rates; high rates of non-performing loans; high operational costs leading to cost rationalisation measures such as staff lay-offs and closing of redundant branches; liquidity problems resulting to liquidation, acquisitions, and some commercial banks being put under statutory management or under receivership by the regulating authority (the Central Bank of Kenya), and growing concern of investors owing to the instability of the commercial banking sector (AIB Capital Ltd, 2017; CBK, 2016; Cytonn Investment Ltd., 2017).

To address these performance challenges, commercial banks have embraced the use of different management strategies, among which is business process outsourcing. The thrust of

this research therefore was to establish whether BPO as a contemporary management strategy has been effective in helping commercial banks to address the myriad performance challenges they face in the current dynamic and hypercompetitive business environment. Specifically, the study sought to determine the effect of outsourcing information technology processes; human resource management processes; marketing processes and security processes on performance of commercial banks in Kenya; to assess the mediating effect of competitive advantage as well as the moderating effect of organisational characteristics on the relationship between business process outsourcing and performance of commercial banks in Kenya.

The study employed both descriptive and explanatory research designs. Data were collected using self-administered questionnaires. Descriptive statistics such as means, standard deviations and percentages were used to describe and summarise the data whereas inferential statistics, particularly regression analyses were used to establish the nature and magnitude of the relationships hypothesised between variables. The model specification was tested using Ramsey specification test, Breusch pagan test (heteroskedasticity) and VIF (multicollinearity) test.

The analyses of the research data showed that business processes outsourcing (outsourcing information technology processes, human resource management processes, marketing processes and security processes) had statistically significant effect on performance of commercial banks in Kenya. Competitive advantage was found to fully mediate the relationship between business process outsourcing and organisational performance of commercial banks in Kenya while organisational characteristics (bank size) was found to

moderate the relationship between business process outsourcing and performance of commercial banks in Kenya.

5.3 Conclusions

The general objective of the study was to establish the effect of business process outsourcing on performance of commercial banks in Kenya which was tested using four independent variables: information technology processes outsourcing, human resource management processes outsourcing, marketing processes outsourcing and security processes outsourcing. Owing to the statistical findings, several conclusions can be drawn.

On the basis of objective one that sought to establish the effect of information technology processes outsourcing on performance of commercial banks in Kenya, results of the descriptive statistics implied that respondents concurred that ITO was positively linked to organisational performance of commercial banks. Software development was the most outsourced while IT systems maintenance was the least outsourced. The inferential statistics further showed that ITO had a positive statistically significant effect on bank performance leading to the conclusion that banks should continue outsourcing IT processes as they positively affect organisational performance of commercial banks in Kenya.

On the second objective that sought to determine the effect of outsourcing human resource management processes on performance of commercial banks in Kenya, the descriptive statistics showed that respondents were of the view that HRMO was positively related to performance of commercial banks. Descriptive statistics further revealed that training was the most outsourced HRM process while performance was least outsourced. Respondents

favoured in-house performance management through staff appraisals to outsourcing the function to vendors. Inferential statistics on the effect of HRMO on bank performance yielded statistically significant positive results. In view of the above findings, the study concludes that HRMO positively affects organisational performance of commercial banks in Kenya and it is an appropriate strategy to give commercial banks competitive advantages over competition by focusing on their core business.

Regarding the third objective of the study that sought to establish the effect of outsourcing marketing processes on performance of commercial banks in Kenya, the descriptive statistics showed that respondents strongly agreed that MPO was linked to performance of commercial banks in Kenya. Among the outsourced marketing processes outsourced, branding was the most outsourced. Corporate branding was seen to lead to customer attraction, improve product visibility thus improving market share. Results of the regression analyses revealed that marketing processes outsourcing had statistically significant positive effect on organisational performance of commercial banks in Kenya thus leading to the conclusion that MPO is an effective strategy in improving performance of commercial banks in Kenya.

Concerning the fourth objective of the study that sought to establish the effect of outsourcing security processes on performance of commercial banks in Kenya, results of the descriptive statistics implied that respondents highly concurred that SPO was linked to positive performance of commercial banks in Kenya. This finding is further supported by the inferential statistics where results of the regression analyses yielded statistically significant positive results. Therefore, results of the study findings confirmed the objective that

outsourcing security processes positively affects organisational performance of commercial banks in Kenya.

The fifth objective of the study sought to establish the mediating effect of competitive advantage on the relationship between business process outsourcing and performance of commercial banks in Kenya. The descriptive statistics yielded a high score on the five-point Likert scale meaning that respondents strongly supported the view that competitive advantage was highly linked to organisational performance of commercial banks in Kenya. This finding agrees with the inferential statistics where the results of causal steps of the mediation process established that competitive advantage fully mediates the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

The sixth objective of the study sought to establish the moderating effect of organisational characteristics (bank size) on the relationship between business process outsourcing and performance of commercial banks in Kenya. Results of the regression analyses revealed that the interaction of organisational characteristics (bank size) and business process outsourcing (organisational characteristics*business process outsourcing) showed that organisational characteristics (bank size) had a moderating effect on the relationship between business process outsourcing and organisational performance of commercial banks in Kenya.

In addition, descriptive analyses of the data revealed that commercial banks engage in BPO for various reasons such as access to superior resources of the vendors (human, financial, and technological); the need to concentrate on their core businesses where they have competitive advantages, cost management by handing over non-core functions to specialised vendors,

taking advantage of the specialist vendors innovation capabilities as well as the flexibility of vendors in responding to the demands of a dynamic business environment. Of singular mention was cost management that was a recurrent theme for outsourcing across all the BPO processes and had a high aggregate mean on the five-point Likert scale.

From the qualitative data, concerns about BPO were raised such as confidentiality of customers information, revealing of too much internal information that can be used against the client in the event of conflict of interest or disagreement, risk of fraud and other cyber-crimes especially in the outsourcing of information technology processes, too much revelation of the organisation's secrets or strategies to vendors (especially in marketing processes outsourcing) can at times be counter-productive in instances where ethical imperatives are not upheld and such information is leaked to competitors who could also be clients of the same vendor.

5.4 Contribution of the Study to Knowledge

The study sought to establish the effect of business process outsourcing on performance of commercial banks in Kenya. The study findings established statistically significant relationship between BPO and performance of commercial banks meaning that BPO is a source of performance benefits for organisations. The study also found that competitive advantages fully mediated the relationship between BPO and bank performance; meaning that BPO is a source of competitive advantage that influences performance of commercial banks. Bank size moderated the relationship between BPO and performance of commercial banks meaning that BPO decisions in commercial banks are influenced by their market share or geographical spread.

The study findings provide support for the assumptions underlying the RBV and the Dynamic Capability view that access to superior resources and capabilities gives organisations competitive advantage thus enabling them to respond effectively and efficiently to the rapidly changing business environment. The findings also support the postulates of the Core Competence theory that BPO enables organisations to hand over non-core functions to specialist vendors in order to concentrate on their core business and areas of core competence thus enhancing their performance. The descriptive statistics revealed that cost management is a major determinant in BPO relationships. This is in support of the Transaction Cost Economics Theory that requires organisations to evaluate transaction costs involved in business operations and determine whether to conduct such operations/processes in-house or to outsource to a competent vendor.

Extant empirical literature showed that most of the robust studies linking BPO with performance in the banking sector had been conducted in the developed countries such as the United States of America and Europe; and to some appreciable extent in emerging economies in Asia such as China, India, Malaysia and the Philippines. The conduct of this study in a different context; a developing country in Africa (Kenya) provided additional robust and quantitative evidence that BPO as a management strategy is gaining traction not only in the developed and emerging economies but also in small developing countries. This is in tandem with the role that BPO plays in helping commercial banks to manage their organisational performance in the context of a highly dynamic and competitive global business environment.

Literature review further revealed that very few studies linking BPO to organisational performance in commercial banks had been conducted in Kenya and most of the available

related researches were case studies. Findings of case studies are difficult to generalise as they are unique and specific to the organisation or institution under study. The focus of this study on all the commercial banks that met the qualifying criteria formed a solid base for generalisation of the findings across the commercial banking sector. In addition, most of the studies conducted in Kenya used either qualitative data or quantitative data only in their analyses thus making triangulation difficult. This study bridged that gap by using both qualitative and quantitative data that allowed for both descriptive and inferential statistics that are more robust in interpreting and corroborating the findings.

Most of the studies that were reviewed had tested the direct relationship between business process outsourcing and organisational performance without testing either for mediation, moderation, or both. This study, however, makes a contribution to strategic management by showing that competitive advantage fully mediates the relationship between BPO and organisational performance while organisational characteristics (bank size) moderate the relationship between BPO and performance. Furthermore, the study contributes to the strategic management literature by supporting the Core Competence theory which underscores the need for organisations to concentrate on what they are good at (source of competitive advantage and development of dynamic capabilities) while handing over non-core functions to specialist vendors.

In terms of performance measurement, most studies linking BPO and organisational performance adopted the use of either financial or non-financial measures and with most of them adopting the use of financial measures. Use of a single measure is insufficient in giving a holistic assessment across the various performance areas in an organisation and in addressing

the diverse stakeholder expectations. This study makes a contribution to that effect by corroborating the findings from both financial and non-financial measures as proposed in the balanced scorecard framework.

The study findings also contribute to the debate on the efficacy of BPO in enhancing organisational performance especially with regard to the transactional costs involved, the attendant risks, as well as the opportunity costs incurred. Moreover, review of different theories resulted into the development of a conceptual framework comprising BPO elements, a mediating variable, as well as a moderating variable. The resultant conceptual model can be adopted or adapted by other studies to test the effect of BPO in other industries.

The findings of this study are deemed crucial to the management of commercial banks in terms of policy formulation with regard to the appropriation of business process outsourcing as a strategic management tool. Specifically, the study found outsourcing marketing processes to have the highest effect on performance of commercial banks while outsourcing security processes had the least effect. In addition, outsourcing software development was greatly supported while outsourcing recruitment and performance management were least supported by respondents. These findings can therefore provide direction to the top management of commercial banks on policy formulation with regard to BPO. The study findings are also of critical importance to the regulating body of the banking industry; the Central Bank of Kenya, especially when evaluating its policies regarding BPO in commercial banks.

5.5 Recommendations for Policy and Practice

Several recommendations for policy and practice can be made for effective application of BPO in commercial banks in Kenya based on the study findings. The general objective of the study; the effect of business process outsourcing on performance of commercial banks in Kenya, was confirmed to have a statistically significant positive effect. Owing to the empirical finding that overall BPO positively contributes to the performance of commercial banks in Kenya, it is recommended that top management of commercial banks in Kenya should wholly embrace BPO as an effective performance management strategy and widen the bracket of the range of businesses processes to be outsourced. Literature review shows that most commercial banks mainly outsource non-critical non-core business processes such as cleaning, catering, transportation, legal, valuation reports, auctioneering, general repair and maintenance, and card production, among others. Therefore, the results of this study that focused mainly on critical non-core business processes such as ITO, HRMO, MPO and SPO should motivate and give more confidence to the top management in outsourcing more critical processes. Current literature on BPO shows that companies and other business entities in developed countries are currently outsourcing even core business functions. Empirical findings of this study should also inform the policy decisions of the regulating authority of the banking industry (The Central Bank of Kenya) when reviewing its policies on business process outsourcing in the banking industry.

Outsourcing of business processes such as information technology, human resource management, marketing and security processes was found to be positive and significant in contributing towards performance of commercial banks in Kenya. Of the four business processes outsourced, marketing processes outsourcing had the highest contribution as shown

by the inferential statistics while security processes registered the lowest contribution. On marketing processes outsourcing, respondents strongly agreed that corporate branding was one of the outsourced processes that had a very significant benefit to the banks. In particular, they noted that outsourcing corporate branding process was instrumental in attracting more customers, enhancing customer loyalty, and improving customer's impression on the bank generally as well as its products. All these effects translate into increased market share thus enhancing organisational performance of commercial banks. Consequent to this finding, it is recommended that commercial bank's top management should pay more attention to marketing processes outsourcing and be deliberate about identifying more marketing processes that can be considered for outsourcing since marketing is the medium through which the bank communicates about its product offering to customers, attracts more customers, increases product visibility and customer satisfaction eventually resulting to more market share. However, form the qualitative data, concerns were raised on the safety and confidentiality of customer information and bank's strategies when shared with marketing vending companies. To address this concern, top management should exercise due diligence in vendor selection, sign service charter as well as a statement on ethical imperatives.

On information technology processes outsourcing, the study found that it was positively linked to performance of commercial banks albeit modestly. From the descriptive statistics, respondents highly supported outsourcing software development as it was deemed to greatly contribute to product innovation, service provision, and data security through cloud computing as they were deemed to highly affect bank performance. Upon this finding, it is recommended that management of commercial banks should allocate more resources to these processes as they were highly associated with performance of commercial banks. Furthermore, there is the

need to tighten the noose on data security by engaging the services of experienced and professional vendors with a good reputation as this can help curb the challenges identified in the qualitative data such as cybercrime and fraud (phishing and hacking). In addition, stringent vetting criteria for vendors should be put in place to avoid issues that predispose the banking systems to fraudulent third parties.

In the area of human resource management processes outsourcing, although the descriptive statistics showed that HRMO generally had a positive effect on performance of commercial banks, respondents did not appear to strongly support the use of vendors in performance management and recruiting staff to fill vacant positions. It would therefore be prudent for the top management of commercial banks to establish the reasons underlying this observation in order to come up with more robust policies on recruitment. Top management should also analyse the transactional costs involved in both in-house and outsourced selection process in a bid to determine the most cost-effective approach in the long-run. In addition, vending companies should also establish reasons for such ambivalent finding and also endeavour to identify specific industry requirements in order to develop appropriate and agreeable metrics.

However, outsourcing training was highly linked to performance of commercial banks. Respondents strongly agreed that there is a lot of skills transfer from experienced professional trainers, which translates to enhanced employees' productivity. Against this finding, it is recommended that the HR managers should work very closely with managers at lower levels in training needs assessment in order to identify training needs of employees that would boost their productivity and then coordinate with vendors on implementation.

On security processes outsourcing, respondents concurred that it positively contributes to performance of commercial banks in Kenya. They indicated that outsourcing security processes was crucial in transferring risks associated with cash management and/or cash loss, giving commercial banks access to modern security technology owned by security companies, and benefiting from the flexibility of specialised security companies in responding to the changing security needs. The inferential statistics also showed statistically significant effect of SPO on bank performance. However, it was quite modest. Therefore, management of commercial banks ought to establish the transaction costs involved in SPO and determine more efficient strategies of managing security. Courtesy of the modern trend of establishing shopping malls which tend to house many commercial banks together, they can collaborate with other banks as well as other business entities in managing physical security. They can also consider outsourcing their physical security to the same company and share the costs involved. Moreover, it is recommended that commercial banks should develop strong policies that guide security processes outsourcing arrangements with vendors in order to mitigate the attendant risks.

With regard to competitive advantage, respondents agreed that BPO was a major source of competitive advantage for commercial banks. Respondents strongly agreed that BPO was instrumental in enhancing product innovation and increasing the speed of new product development, which were sources of competitive advantages. Moreover, competitive advantage was found to fully mediate the relationship between BPO and bank performance. Commercial banks should therefore do an audit of their business processes that they are not very competent in and consider them for outsourcing in order to increase their competitiveness by concentrating on what they are good at.

On the moderating effect of bank characteristics on the relationship between BPO and performance of commercial banks, bank size was found to moderate the relationship. This therefore means that BPO decisions are influenced by an organisation's resources. Small banks were least engaged in BPO compared to the large and small banks. Resource Based View and Dynamic Capabilities View would provide justification for small banks to consider BPO more seriously as they can benefit immensely from Vendor's pool of resources, skills, competencies and networks that can give them leverage in the sector. In conclusion, due diligence should be exercised in vendor selection to ensure successful and productive outsourcing arrangements between the outsourcee and the outsourcerer. There should also be a deliberate effort in healthy management of outsourcee-outsourcerer relationships for better performance outcomes.

5.6 Suggestions for Further Research

Future research on the same area of study can follow the following research streams: a comparative study on business process outsourcing in public and private commercial banks in order to establish which category utilises BPO strategy more and the underlying reasons. A comparative study can also be conducted on commercial banks that utilise BPO strategy and those that do not in order to compare performance outcomes. This study was restricted to commercial banking sector. Therefore, a similar study can be replicated in other banking sectors for comparability. A different conceptualisation of the study can be utilised to test the efficacy of BPO strategy in the same sector. Replication of the same study in same sector in other developing countries would be instrumental in determining the direction BPO is taking.

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APPENDICES

Appendix I: Questionnaire Cover Letter

Isaiah Murithi Gituma,
Kenyatta University,
P.O. BOX 43844-00100,
Nairobi, Kenya.
14th August, 2017.

Dear Participant,

SUBJECT: RESEARCH

RESEARCH TITLE: BUSINESS PROCESS OUTSOURCING AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

I am a Doctor of Philosophy (PhD) candidate in the Department of Business Administration, School of Business - Kenyatta University. As part of the requirement for the award of the degree, I am expected to undertake a research study on the above named topic.

To facilitate the completion of this study, I wish to humbly request for your assistance by filling-in the attached questionnaire. Kindly answer all the questions as completely as possible to facilitate objective analysis of the findings.

The research results are intended for academic purposes only and will be treated with utmost confidentiality. No specific reference will be made to your organization and only the summary results will be made public. In addition, the researcher will be ready to share with your institution the results of the study upon request. Should you have any query, please feel free to direct them to the undersigned.

Yours faithfully,

Isaiah Murithi Gituma,
Tel +254720 830 314,
Email: mgituma2013@gmail.com

D86/CTY/22876/2012

Appendix II: Questionnaire

This questionnaire is designed to obtain information regarding the effect of business processing outsourcing on performance of commercial banks. (Business processing outsourcing refers to handing over non-core business processes to specialised vendors). The accuracy of the responses you provide will be crucial to the success of the research project. I wish to underscore that the information provided will be used purely for academic purposes. Kindly respond to all the questions.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male [ ] Female [ ]

2. Job title? …….....

3. Highest level of education: Diploma [ ] Bachelor's Degree [ ]

Master's Degree [ ] PhD [ ] Others: Please Specify……...

4. Working experience with the bank:

Less than 5 years [ ] 5-10 years [ ] 11-15 years [ ] Above 15 years [ ]

SECTION B: BANK INFORMATION

5. Name of your bank …….

6. Category of your bank: Large [ ] Medium [ ] Small [ ]

7. Number of branches ……..

8. Type of bank ownership (a) Public [ ] Private [ ]

(b) Local [ ] Foreign [ ]

9. For how long has your bank been in existence? …….

PART C: INFORMATION TECHNOLOGY OUTSOURCING (DATA SECURITY, SOFTWARE DEVELOPMENT, AND INFORMATION TECHNOLOGY SYSTEMS MAINTENANCE)

10. Please indicate the extent to which the following statements are true as relates to data security, software development, and IT Systems Maintenance in your institution. Please tick (√) the box with a number from the scale below that best describes your response. Where 5 = To a very great extent 4 = To a great extent 3 = Not sure 2 = To a little extent 1 = Not at all

(a)	**Data Security**	1	2	3	4	5
i.	External vendors are engaged in managing data security					
ii.	Vendors provide data back-up					
iii.	Vendors apply best practices and security technology to the storage system to augment server and network security					
iv.	The bank uses cloud computing					
v.	There is budget for data security by specialized vendors					
vi.	Cost containment is a factor in engaging the services of specialist companies in managing data security					
(b)	**Software Development**					
i.	Software development is done by external experts					
ii.	Banks use complex soft wares which require the skills of highly specialized experts					
iii.	The high rate of IT products obsolescence necessitates handing-over software development processes to external vendors					
iv.	It is cheaper to use external specialists to manage the frequent upgrading of software used by the bank					
v.	The high rate of product innovation in banks require specialized software developers to support such innovations					
vi.	Specialized vendors are best placed to manage rapidly changing software industry					
(c)	**IT systems Maintenance**					
i.	External experts maintain the bank's IT systems					
ii..	It is cheaper for the bank to use external specialized companies in IT systems maintenance					
iii.	IT systems by the bank require regular updates which would be costly for the bank if it has to do it using in-house experts					
iv.	Cost management is a factor in engaging the services of specialist companies in IT systems maintenance.					

11 (a) Are there any drawbacks of IT outsourcing experienced in your bank?

Yes [ ] No [ ]

(b) If the answer is Yes in 11 (a) above, please highlight some of them.

……

……

PART D: HUMAN RESOURCE MANAGEMENT OUTSOURCING (RECRUITMENT, TRAINING, PERFORMANCE MANAGEMENT)

12. Please indicate the extent to which the following statements are true as relates to recruitment, training and performance management in your institution. Tick (√) the box with a number from the scale below that best describes your response. Where 5 = To a very great extent 4 = To a great extent 3 = Not sure 2 = To a little extent 1 = Not at all

		1	2	3	4	5
	Recruitment					
i.	The bank prefers using specialized recruitment agencies in selecting staff to fill vacant or new positions					
ii.	External recruitment agencies take a shorter time to fill vacancies					
iii.	In-house recruitment takes a lot of management's time					
iv.	Specialized recruitment agencies are better at matching employee's competencies with the job requirements					
v.	Cost-efficiency is a factor in using specialized recruitment agencies					
(b)	**Training**					
i.	The bank mostly uses consultancy and training firms in conducting training for the staff					
ii.	The bank management engages the services of consultants on a range of issues requiring capacity building					
iii.	External specialist groups are engaged by the bank on team building activities					
iv.	Consultancy firms have a large pool of experts who are able to address varied training needs of their bank clientele					
v.	There is a lot of skill transfer from experienced consultants					
vi.	Training programs by experts are properly designed to meet the bank's specific objectives					

vii.	Consultancy firms are more flexible in offering training as needs arise					
viii	There is a budget for training by specialist firms					
(c)	**Performance Management**					
i.	Specialist firms are used in conducting performance appraisals					
ii.	External specialists are more objective in performance evaluation					
iii.	Internally-conducted performance evaluations are very time consuming and tedious					
iv.	Employees prefer performance evaluation by external specialist firms to in-house evaluation					
v.	External agencies are more flexible in conducting performance evaluation					
vi.	Cost-efficiency is a factor in engaging external bodies to conduct performance evaluation.					
vii.	There is a budget for performance evaluation by specialist firms.					

13 (a) Are there any drawbacks of HRM outsourcing experienced in your bank?

Yes [ ] No [ ]

(b) If the answer is Yes in 13 (a) above, please highlight some of them.

……

……

PART E: MARKETING SERVICES OUTSOURCING (PROMOTION, BRANDING, MARKETING RESEARCH)

14. Please indicate the extent to which the following statements are true as relates to promotion, branding and marketing research in your institution. Please tick (√) the box with a number from the scale below that best describes your response. Where 5 = To a very great extent 4 = To a great extent 3 = Not sure 2 = To a little extent 1 = Not at all

	Promotion	1	2	3	4	5
i.	The bank uses a marketing agency for its advertisements					
ii.	External vendors are used by the bank for sales promotion					
iii.	The Relationship Manager works in liaison with marketing agencies					
iv.	There is a budget for engaging the services of marketing agencies					
v.	The bank benefits from the resources and experience of the promotion agency					
(b)	**Branding**					
i.	Specialist vendors are used in corporate branding					
ii.	Specialist vendors are engaged in product branding					
iii.	Strong branding by specialist companies improves product's visibility					
iv.	Use of branding specialists improves customer impression on the bank as well as its products					
v.	Strong branding attracts more customers					
vi.	Strong branding enhances customer loyalty					
vii.	There is a budget for engaging the services of branding specialists					
(c)	**Marketing Research**					
i.	The bank uses specialist marketing agencies to conduct marketing research					
ii.	The bank benefits from the resources of the specialist marketing agencies					
iii.	Marketing research is time-consuming for in-house staff					
iv.	Cost-efficiency is a major factor in engaging the services of specialist marketing agencies					
v.	Marketing agencies are more flexible in responding to the environmental changes					
vi.	The experience of marketing agencies is quite beneficial to the bank in responding to emerging issues in banking					
vii.	There is a budget for engaging the services of specialist marketing agencies					

15 (a) Are there any drawbacks of marketing processes outsourcing experienced in your bank?

Yes [ ] No [ ]

(b) If the answer is Yes in 15 (a) above, please highlight some of them.

……

……

PART F: SECURITY PROCESSES OUTSOURCING (CASH TRANSIT MANAGEMENT, PREMISES GUARDING)

16. Please indicate the extent to which the following statements are true as relates to cash transit management and premises guarding in your institution. Please tick (√) the box with a number from the scale below that best describes your response. Where 5 = To a very great extent 4 = To a great extent 3 = Not sure 2 = To a little extent 1 = Not at all

	Security Services	1	2	3	4	5
i.	Cash transit services are offered by a security company					
ii.	Liability of lost cash on transit is borne by the security company					
iii.	Security of bank premises is offered by guards from external security companies					
iv.	Installation of security equipment such as CCTV cameras and their management is the responsibility of the security company					
v.	Security management by banks internal staff is time consuming and expensive					
vi.	Security management by banks internal staff is more risky					
vii.	Security companies have the modern technology that enhance provision of security needs					
viii.	There is a budget for engaging the services of specialist security companies					
ix.	Specialized security companies are more flexible in responding to changing security needs					

17 (a) Are there any drawbacks of security services outsourcing experienced in your bank?

Yes [ ] No [ ]

(b) If the answer is Yes in 17 (a) above, please highlight some of them.

……

……

PART G: COMPETITIVE ADVANTAGE

18. Indicate the extent to which you agree or disagree with the following statements concerning the relationship between business process outsourcing and competitive advantage; where 1= strongly disagree; 2= disagree; 3 = somewhat agree; 4= agree; 5= strongly agree)

	Competitive Advantage	1	2	3	4	5
i.	Outsourcing allows for specialization					
ii.	By outsourcing non-core functions, the bank's staff can concentrate on their core business thus increasing their productivity					
iii.	Outsourcing enables the bank to take advantage of the vendor's pool of resources, competencies and technologies					
iv.	Concentration by the staff on their jobs makes them more innovative and increase the speed of new product introduction in the market					
v.	Outsourcing allows for differentiation of products through value addition					
vi.	Outsourcing benefits the bank through significant reduction in operational costs as well as capital investment costs					

PART H: ORGANISATIONAL (BANK) CHARACTERISTICS

19. Indicate the extent to which you agree or disagree with the following statements concerning the relationship between business process outsourcing and bank characteristics; where 1= strongly disagree; 2= disagree; 3 = somewhat agree; 4= agree; 5= strongly agree)

	Bank Characteristics	1	2	3	4	5
i.	Outsourcing decisions are influenced by the number of bank branches					
ii.	Outsourcing decisions are influenced by the market share of the bank in the industry					
iii.	Outsourcing decisions are influenced by the number of years the bank has been in operation					
iv.	Foreign-owned banks engage in outsourcing more than locally-owned banks					
v.	Private banks engage in outsourcing more than public banks					

PART I: BANK PERFORMANCE

20(a) Non-financial Performance

Please indicate by ticking (√) the extent to which you agree or disagree with the following statements regarding the influence of BPO on performance (non-financial) in your institution. Where 5 = strongly agree 4 = agree 3 = somewhat agree 2 = disagree 1 = strongly disagree.

	Non-financial Performance	1	2	3	4	5
(a)	**Customer Satisfaction**					
i.	Faster resolution of customer issues					
ii.	Enhances customer loyalty/retention					
iii.	High conversion rate of potential customers					
iv.	Increased sales volumes					
v.	Increased market share					
vii.	More referrals from existing customers					
(b)	**Employee Satisfaction**					
i.	Efficiency in performance of duties					
ii.	Heightened level of innovativeness and creativity					
iii.	Effectiveness in achieving individual as well as organizational objectives/goals					
iv.	Low staff turn-over rates					
v.	Consumption of bank's products and services by employees					
(c)	**Service Quality**					
i.	Reliability (dependability and accuracy) of service provision					
ii.	Quality assurance through competence, credibility and courtesy of staff					
iii.	Provision of requisite physical facilities					
iv.	Responsiveness to customer needs					
v.	Security of data and products					

(d)	**Cost efficiency**					
i.	Reduction in operational costs					
ii.	Elimination of costs associated with installation of infrastructure such as security equipment					
iii.	Allows management and staff to concentrate on their core business					
iv.	Time saving thus allowing internal staff to focus on their primary responsibilities					

(b) Financial Performance

On a scale of 1-5, rate the perceived contribution of BPO to the performance of your bank using the shown industry averages for return on assets (ROA), return on equity (ROE) and net interest margin (NIM) for the years surveyed (2013 – 2016).

(i) Return on Assets (Industry averages: 0.1% - 4.5%)

(where: 1= Very low (ROA less than 1%); 2= Low (ROA 1.1 - 2.0%); 3= Moderate (ROA 2.1 - 3.0%); 4= High (ROA 3.1 - 4.0%); 5= Very high (ROA above 4%).

(a)	**Return on Assets**	1	2	3	4	5
	2016					
	2015					
	2014					
	2013					

(ii) Return on Equity (Industry averages: 8% - 26%),

(Where: 1= Very low (ROE less than 10%); 2= Low (ROE 11 -15%); 3= Moderate (ROE 16 - 20%); 4= High (ROE 21 - 25%); 5= Very high (ROE above 25%).

	Return on Equity	1	2	3	4	5
i.	2016					
ii.	2015					
iii.	2014					
iv.	2013					

(iii) Net Interest Margin (Industry averages: 5% - 12%)

(Where: 1= Very low (NIM less than 5%); 2= Low (NIM 5.1 - 7.0%); 3= Moderate (NIM 7.1 - 9.0%); 4= High (NIM 9.1 - 11%); 5= Very high (NIM above 11%).

	Net Interest Margin	1	2	3	4	5
i.	2016					
ii.	2015					
iii.	2014					
iv.	2013					

Thank you for your time and participation!!

Appendix III: Peer Groups of all Commercial Banks in Kenya

Large Peer Group

1. Kenya Commercial Bank Ltd
2. Co - operative Bank of Kenya Ltd
3. Equity Bank Ltd.
4. Barclays Bank of Kenya Ltd
5. Standard Chartered Bank (K) Ltd
6. Commercial Bank of Africa Ltd
7. Diamond Trust Bank (K) Ltd
8. CFC Stanbic Bank (K) Ltd

Medium Peer Group

9. NIC Bank Ltd
10. I&M Bank Ltd
11 National Bank of Kenya Ltd
12. Chase Bank Ltd (Under receivership)
13. Citibank N.A. Kenya
14. Family Bank Ltd.
15. Bank of Baroda (K) Ltd
16. Bank of Africa (K) Ltd
17. Imperial Bank Ltd (Under receivership)
18. Prime Bank Ltd
19. Housing Finance Co. of Kenya Ltd
20. Ecobank Kenya Ltd
21. Bank of India
22. Guaranty Trust Bank Ltd

Small Peer Group

23. Charterhouse Bank Ltd
24. African Banking Corporation Ltd
25. Victoria Commercial Bank Ltd
26. Sidian Bank
27. Giro Commercial Bank Ltd
28. Fidelity Commercial Bank Ltd (Undergoing acquisition)
29. Development Bank of Kenya Ltd
30. Jamii Bora Bank Ltd
31. Equatorial Commercial Bank Ltd
32. First Community Bank Ltd
33. Guardian Bank Ltd
34. Consolidated Bank of Kenya Ltd
35. Habib Bank A.G. Zurich
36. Trans - National Bank Ltd
37. Habib Bank Ltd
38. Paramount Universal Bank Ltd
39. Oriental Commercial Bank Ltd
40. Credit Bank Ltd
41. Middle East Bank (K) Ltd
42. UBA Kenya Ltd

Appendix IV: Target Population (Commercial Banks used in the Study)

S/N	BANK	PEER GROUP	NUMBER OF RESPONDENTS
1.	**Barclays Bank of Kenya Ltd.**	Large	4
2.	**Co-operative Bank of Kenya Ltd.**	Large	4
3.	**Equity Bank Ltd.**	Large	4
4.	**Kenya Commercial Bank Ltd.**	Large	4
5.	**Standard Chartered Bank Kenya Ltd.**	Large	4
6.	**Commercial Bank of Africa Ltd.**	Large	4
7.	**Diamond Trust Bank Kenya Ltd.**	Large	4
8.	**CFC Stanbic Bank**	Large	4
9.	**Bank of India**	Medium	4
10.	**Citibank N.A. Kenya**	Medium	4
11.	**Bank of Africa Kenya Ltd.**	Medium	4
12.	**Bank of Baroda (K) Ltd.**	Medium	4
13.	**Ecobank Kenya Ltd.**	Medium	4
14.	**Family Bank Limited**	Medium	4
15.	**Guaranty Trust Bank Ltd**	Medium	4
16.	**I & M Bank Ltd.**	Medium	4
17.	**National Bank of Kenya Ltd.**	Medium	4
18.	**NIC Bank Ltd.**	Medium	4
19.	**Prime Bank Ltd. Postal**	Medium	4
20.	**African Banking Corporation, Ltd.**	Small	4
21.	**Consolidated Bank of Kenya Ltd.**	Small	4
22.	**Development Bank of Kenya Ltd.**	Small	4
23.	**Equatorial Commercial Bank Ltd.**	Small	4
24.	**Fidelity Commercial Bank Ltd.**	Small	4
25.	**Guardian Bank Ltd.**	Small	4
26.	**Sidian Bank**	Small	4
27.	**Trans-National Bank Ltd.**	Small	4
28.	**Credit Bank Ltd.**	Small	4
29.	**Jamii Bora Bank Limited**	Small	4
30.	**Oriental Commercial Bank Ltd.**	Small	4
31.	**Victoria Commercial Bank Ltd**	Small	4
32.	**Habib Bank Ltd**	Small	4
	Total	32	**128**

Source: CBK Annual Supervision Report (2017)

Appendix V: Approval of Research Proposal by Graduate School, Kenyatta University

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: kubps@yahoo.com
dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 57530

Internal Memo

FROM: Dean, Graduate School

DATE: 29th June, 2017

TO: Mr. Gituma M. Isaiah
C/o Department of Business Administration
KENYATTA UNIVERSITY

REF: D86/CTY/PT/22876/12

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that the Graduate School Board at its meeting 21st June, 2017 approved your Ph.D. Research Proposal entitled "Business Process Outsourcing and Performance of Commercial Banks in Kenya".

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed supervision Tracking Forms per semester. The form has been developed to replace the progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

By copy of this letter, the Registrar (Academic) is hereby requested to grant you substantive registration for your Ph.D. studies.

Thank you.

KENYATTA UNIVERSITY OFFICE OF DEAN 18 JUL 2017 GRADUATE SCHOOL P.O. BOX 43844-00100 NAIROBI

REUBEN MURIUKI
FOR: DEAN, GRADUATE SCHOOL

c.c. Registrar (Academic) Att; Mr Ithaam
Chairman, Department of Business Administration

Supervisors:

1. Dr. Anne Muchemi
C/o Department of Business Administration
KENYATTA UNIVERSITY

2. Dr. Linda Kimencu
C/o Department of Business Administration
KENYATTA UNIVERSITY

RM/cao

Appendix VI: Research Authorisation by Kenyatta University Graduate School

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: kubps@yahoo.com
dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D86/CTY/PT/22876/12 Date: 29th June, 2017

The Director General,
National Commission for Science, Technology & Innovation,
P.O. Box 30623-00100,
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR MR. GITUMA I. MURIITHI - REG. NO. D86/CTY/PT/22876/12

I write to introduce Mr. Muriithi who is a Postgraduate Student of this University. He is registered for a Ph.D. degree programme in the Department of Business Administration in the School of Business.

Mr. Muriithi intends to conduct research for Ph.D. thesis entitled "Business Process Outsourcing and Performance of Commercial Banks in Kenya".

Any assistance given will be highly appreciated.

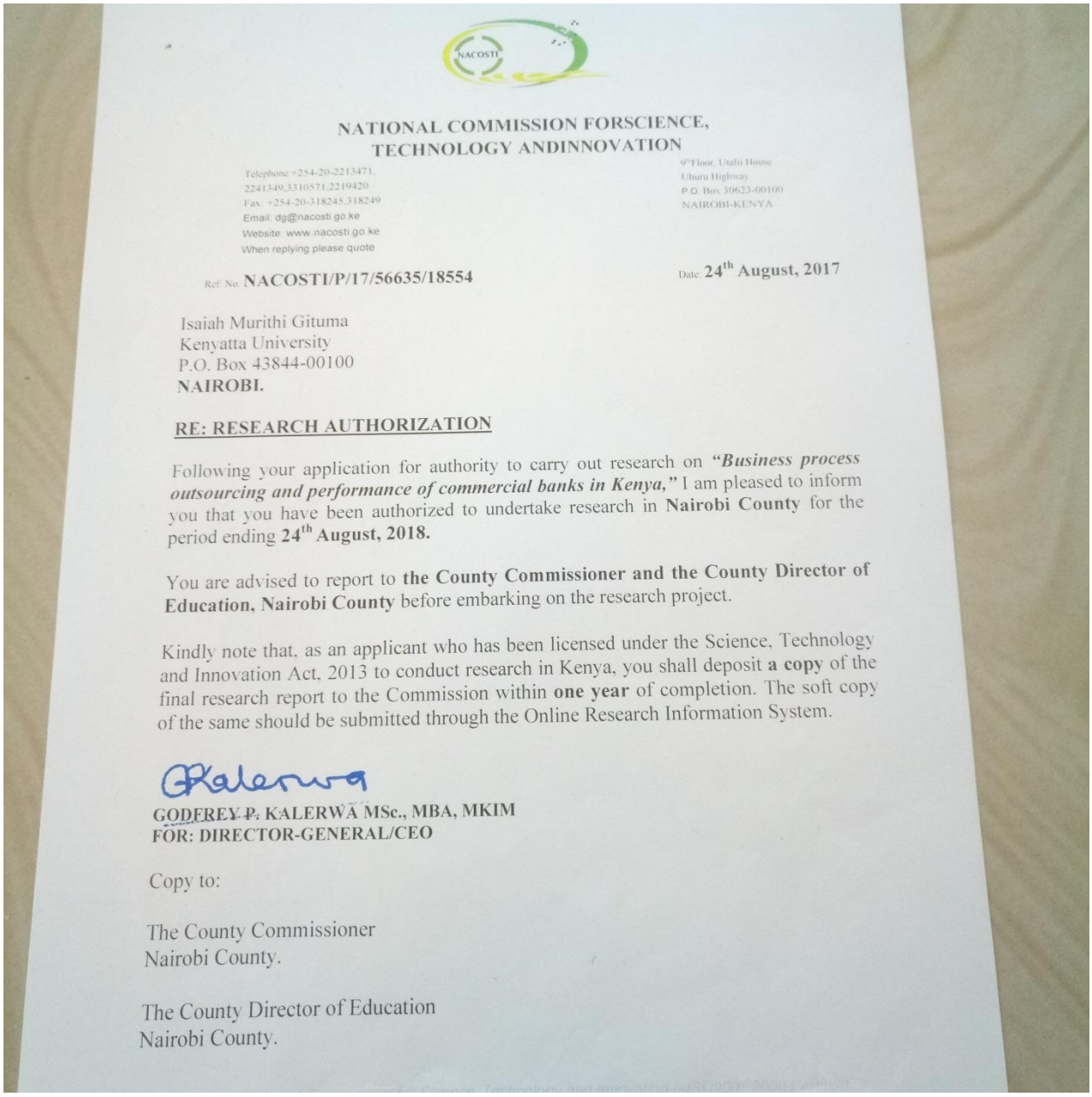
KENYATTA UNIVERSITY * OFFICE OF DEAN * 16 JUL 2017 GRADUATE SCHOOL P.O. Box 43844-00100 NAIROBI

Yours faithfully,

MRS. LUCY N. MBAABU
FOR: DEAN, GRADUATE SCHOOL

RM/cao

Appendix VII: NACOSTI Research Authorisation



NATIONAL COMMISSION FORSCIENCE,
TECHNOLOGY ANDINNOVATION

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Website: www.nacosti.go.ke
When replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref No. **NACOSTI/P/17/56635/18554**

Date: **24th August, 2017**

Isaiah Murithi Gituma
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Business process outsourcing and performance of commercial banks in Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **24th August, 2018.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

Appendix VIII: NACOSTI Research Permit

THIS IS TO CERTIFY THAT:
MR. ISAIAH MURITHI GITUMA
of KENYATTA UNIVERSITY, 43844-100
Nairobi,has been permitted to conduct
research in *Nairobi County*

on the topic: *BUSINESS PROCESS OUTSOURCING AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA*

for the period ending:
24th August,2018

Permit No : NACOSTI/P/17/56635/18554
Date Of Issue : 24th August,2017
Fee Recieved :Ksh 2000

Director General
National Commission for Science,
Technology & Innovation

CONDITIONS

1. The License is valid for the proposed research, research site specified period.
2. Both the Licence and any rights thereunder are non-transferable.
3. Upon request of the Commission, the Licensee shall submit a progress report.
4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.
5. Excavation, filming and collection of specimens are subject to further permissions from relevant Government agencies.
6. This Licence does not give authority to transfer research materials.
7. The Licensee shall submit two (2) hard copies and upload a soft copy of their final report.
8. The Commission reserves the right to modify the conditions of this Licence including its cancellation without prior notice.

REPUBLIC OF KENYA

NACOSTI

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

Serial No.A 15490

CONDITIONS: see back page