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**AN ANALYSIS OF EFFECTS OF OUTSOURCING STRATEGIES ON  
ORGANIZATIONAL PERFORMANCE:  
A CASE OF THE KENYA REVENUE AUTHORITY**

**D53/CTY/PT/20776/2010**

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**A Research Project submitted to the Department of Business Administration  
in the School of Business in partial fulfilment for the Degree of Master of  
Business Administration of Kenyatta University**

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## DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

Signed -----

Date 26/11/2012

Jasiron Anambo Ochieng

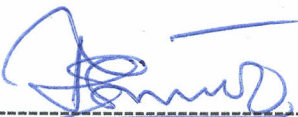
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## **DEDICATION**

To my family and all those who spend sleepless nights to ensure improvement of lives and livelihood.

## ACKNOWLEDGEMENTS

The completion of this project was not easy. It was not created by the author alone, but relied on the cooperative assistance of many unseen hands. I wish to acknowledge the tireless efforts of my supervisor, who literally held my hand to ensure completion of this great masterpiece. I owe special thanks to God Almighty for seeing me through.

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## ABSTRACT

Outsourcing is an important business strategy where a third party is contracted to perform non core activities for the organisation. Outsourcing of services may lead to reduction of operational cost and achievement of efficiency. Other benefits that accompany outsourcing strategies include: gain access to world-class capabilities, creating a rich environment of resources that might have been insufficient internally and sharing risks with a partner company. Therefore, this study was intended to establish the effects of outsourcing strategies to an organization while focusing on The Kenya revenue authority. The study adopted a descriptive research design. The study population was the Kenya Revenue Authority employees with an approximated population of 4571 employees. Stratified random sampling method was used with the strata being Board Corporate Services and Admin, Finance, Headquarters Treasury, Human Resources, Information Communication Technology, Internal Audit, Risk Management and Investigation & Enforcement who were concerned with strategy formation and also assisted in giving the effects of the adopted strategies at the organisation. Sampling for these categories was determined using the Fischer formula for the population of more than 1,000 elements using a 95% confidence interval hence giving a sample size of 139 correspondents. Primary data was collected using a questionnaire while secondary data was sourced by reviewing existing publications on the subject. After collection of data and testing for reliability, the questionnaires were coded and analysed with the aid of SPSS. Descriptive statistics was used to establish the extent to which each of the practices was applied at the Kenya Revenue Authority. The descriptive statistics here were the percentages. Then, the Pearson's correlation analysis was used to test the relationship between outsourcing strategies and firm performance. The study revealed that, the decision to outsource part of KRA functions or activities was prompted by Potential cost savings, access to technological innovations and strategic considerations. The study found that compliance, counterparty, access and contractual risk were perceived before the organisation undertakes an outsourcing decision. The study also revealed that KRA adopted varying outsourcing strategies to access to specialised vendor through single supplier, multiple supplier, The study concluded that benefits perceived before the organisation undertakes an outsourcing decision were accessibility of free resources and improved services access to specialised vendor and cost reduction. From the findings, it was noted that outsourcing through joint venture reduces cost, enable the company to focus on core competencies, and improve services. In addition, outsourcing strategies has an effect on the company performance and it pays off at the firm level hence is a viable management decision. This study also concludes that accessibility to specialised vendor, free resources, improved services and cost reduction were derived by the firms through undertaking an outsourcing decision. It therefore recommends that for the organization to succeed in its outsourcing it should be given authority and responsibility to achieve their goals. Good communication should be ensured, job quality should be a priority, strict rules should be implemented to guide business process outsourcing, an explanation should be given to the entire staff why the corporation has to outsource, benefits of business process outsourcing should also be made clear to all the corporation members, there should be a thorough follow-up (supervision) so that the work is done professionally and in good time, costs should be considered before business process outsourcing; to make sure that they do not exceed the benefits of business process.

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## LIST OF ABBREVIATIONS

<b>ACT</b>	Agency Cost Theory
<b>AEO</b>	Authorised Economic Operator
<b>AKI</b>	Association of Kenya Insurers
<b>BPO</b>	Business Process Outsourcing
<b>CAMIS</b>	Cargo Management Information System
<b>CCRS</b>	Computerised Cash Receipting System
<b>COSIS</b>	Customs Oil Stocks Information System
<b>CSD</b>	Customs Services Department
<b>CSR</b>	Corporate Social Responsibility
<b>DPC</b>	Document Processing Centre
<b>DTD</b>	Domestic Taxes Department
<b>ECT</b>	Electronic Cargo Tracking System
<b>I/O</b>	Input/output model
<b>IAEA</b>	International Atomic Energy Agency
<b>IBE</b>	Income before Extraordinary Expenses
<b>ICT</b>	Information and Communication Technology
<b>IMF</b>	International monetary Fund
<b>IT</b>	Information Technology
<b>ITMS</b>	Integrated Tax Management System
<b>JICA</b>	Japan International Cooperation Agency
<b>JKUAT</b>	Jomo Kenyatta University Of Agriculture and Technology
<b>KIFWA</b>	Kenya International Freight and Warehousing Association
<b>KPO</b>	Knowledge Process Outsourcing
<b>KRA</b>	Kenya Revenue Authority
<b>KWATOS</b>	Kilindini Water Front Operating System
<b>LTO</b>	Large Taxpayers Office
<b>MST</b>	Medium and Small Taxpayer
<b>NEMA</b>	National Environment Management Authority
<b>OEM</b>	Original Equipment Manufacturer
<b>R&amp;D</b>	Research and Development

<b>RADDEX</b>	Revenue Authority Digital Data Exchange
<b>RBV</b>	Resource Based View
<b>RDT</b>	Resource Dependent Theory
<b>RTD</b>	Road Transport Department's
<b>SAGA</b>	Semi Autonomous Government Agency
<b>TCT</b>	Transaction Cost Theory
<b>VAT</b>	Value Added Tax
<b>VMS</b>	Vehicle Management System

## DEFINITION OF TERMS

<b>Decapitalisation</b>	Decapitalisation is the return of excess cash to shareholders. It takes the form of an extraordinary dividend or a share buy-back.
<b>In-sourcing</b>	this means keeping the function/service inside the organisation
<b>Operational Cost</b>	This is the cost associated with daily operations of an enterprise: expenses of the company due to its operations
<b>Outsourcing</b>	Is subcontracting a process, such as product design or manufacturing, to a third-party organization
<b>Strategic alliance</b>	Is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.
<b>Parastatal</b>	This is an organization or industry, (especially in some African countries) having some political authority and serving the state indirectly.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non-core company work (Kotler, 2003). Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. It entails transferring of the management and/or day-to-day execution of an entire business function to an external service provider (Overby, 2007). There are different forms of activity levels of outsourcing which includes: Individual outsourcing that affects single positions, functional outsourcing regarding to whole divisions of companies and process outsourcing which swaps out whole business processes like financials or Information Technology (IT). The extent of outsourcing is also important and can be differentiated between selective and total outsourcing (Greaver & Maurice, 1998).

In earlier periods, cost or headcount reductions were the most common reasons to outsource. In today's world, the drivers are often more strategic (Quinn & Hilmer, 1994). They focus on carrying out core value-adding activities in-house, where an organization can best utilize its own core competencies. Some goals of outsourcing may include: reduction and control operating costs, specialization on activities of high value, gain access to world-class capabilities, free internal resources for other purposes, a function is time-consuming to manage or is out of control, to tap external resources which might not be available internally, share risks with a partner company.

Quinn & Hilmer, (1994) further explains the meaning of core competencies as a set of skills and or knowledge cutting across the functional borders. The managers should try to focus on areas where the company dominates, instead of spreading their efforts over the whole value chain. The improved performance resulting from this is expected to outweigh the loss of control that comes with outsourcing strategies. They then go ahead to outline various forms of outsourcing, which include: employees being terminated before activities are transferred to an external service provider; an in-house department can also be transformed into an independent company that subsequently starts offering services independently under own management.

Mullin, (1996). Observed that since the industrial revolution, companies were grappled with how they could exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that could “own, manage, and directly control” its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures. To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced.

Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). However, most organizations were not totally self-sufficient; they outsourced those

functions for which they had no competency internally. Publishers, for example, often purchased composition, printing, and fulfilment services. The use of external suppliers for these essential but ancillary services might be termed the baseline stage in the evolution of outsourcing. Outsourcing support services is the next stage. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of “good housekeeping”. Outsourcing components to affect cost savings in key functions is yet another stage as managers seek to improve their finances.

### **1.1.1 Conventional to strategic outsourcing**

In the early days of outsourcing, the focus was primarily on short term cost reduction. Outsourcing was not much more than the traditional make-or-buy decision, i.e. the decision to provide certain goods or services internally or to purchase them on the Market. This form of outsourcing is known as *conventional outsourcing*. Limiting outsourcing to short-term cost cutting was then heavily criticized by several authors, especially from those, who followed the idea of strategic outsourcing.

This idea has its roots in Quinn’s and Hilmer’s article of the same title in the Sloan Management Review in 1994, in which the two analyzed how managers can achieve increased competitiveness and leverage their organization’s skills and resources (Quinn & Hilmer, 1994).

The main message was that managers should concentrate their scarce resources on the company's core competencies and strategically outsource activities which are of no critical strategic need. It was argued that companies too often just consider short term cost reduction benefits of outsourcing, instead of decreasing long-term capital investments through strategic outsourcing. Strategic outsourcing gained additional momentum after benchmarking Japanese with Western production and supply systems. Analysing this outsourcing paradigm shift, Kakabadse and Kakabadse have captured several aspects of the new outsourcing paradigm. In addition to the above mentioned strategic benefits, they find an increasing focus on flatter organizational structures as well as strategic repositioning and higher value creation to be new strategic outsourcing drivers (Kakabadse and Kakabadse 2000).

In majority of organizations, the main driver behind outsourcing decisions is still the focus on short-term cost reductions. Nevertheless, even these conventional cost considerations "have also been escalated to strategic levels of decision consideration" (Kakabadse and Kakabadse 2000). Instead of achieving more efficiency of just one single function at a time, outsourcing is now employed to redesign complete business processes and increase value across the whole value-chain.

Business process outsourcing (BPO) has turned out to be one of the most significant business trends in the last few years (Kakabadse and Kakabadse 2000). A step that goes even further than BPO, and a term which has recently repeatedly appeared in literature, is transformational outsourcing. An emerging practice, transformational outsourcing aims to facilitate major and rapid organisational change, to enable the launch of new strategies and to reshape organisational boundaries. Transformational outsourcing should be

considered for radical renewal of critical processes. It also functions as well as for achieving crucial improvements in under-performing activities, for communicating and executing organisational change or for being able to pioneer new products and innovations to markets rapidly (Linder 2004). Transformational outsourcing can be considered a further development of the strategic outsourcing idea.

Amongst the earliest businesses to enter the world of outsourcing was the publishing industry. Around that time, economies in the developing nations began opening up. Among them was India now considered as developed. Thanks to the government's stress on education and development of information technology, India soon began to successfully woo the developed nations who were in desperate of need of low cost and talented workers.

The idea of outsourcing is not new. It started way back in the 1700s when manufacturers started shifting the manufacture of goods to countries with cheaper labor during the Industrial Revolution, following the precepts of Adam Smith in his book 'The Wealth of Nations'. The history of outsourcing to India is an interesting story. Even after over a decade of competitive global outsourcing, most of it still goes to India. Reaching this pinnacle in outsourcing has been a long journey. As land, sea, and later, air routes developed between the 15th and 21st centuries, more nations started to outsource trade to other nations, eventually leading to outsourcing to India and other nations. This led to the rise of local that majorly utilized local talents, skills and goods, and international

outsourcing where overseas skills or goods would be preferred over the locally relatively expensive available resources (Kakabadse and Kakabadse 2000).

### **1.1.2 Situation in Kenya**

Although Kenya already has a growing outsourcing sector with over 50 registered companies operational, a boom is expected soon, the main reason is that in June 2009, the first of three high-speed undersea fiber-optic cables became operational in Kenya. The cables, have given Kenya significantly faster, more reliable and less expensive telecommunications connectivity to the rest of the world which means that a far larger number of Kenyans are able to go online as it becomes much more affordable. Ultimately, all these factors have made Kenya much more competitive in offering outsourcing services in the global marketplace (*Moses Kemiba 2009*). Apart from the much improved telecommunications that the high-speed undersea fiber-optic cables have provide the emerging outsourcing sector, Kenya has an abundant English speaking population who are highly literate and IT skills competent with clear accents that are ideal for call centres. It also has the advantage of a skilled and cost-effective workforce that has over 20,000 young graduates coming into the job market every year.

The Kenyan Government has also introduced a raft of incentives to make investing in outsourcing businesses a very attractive proposition. In fact, Outsourcing is underscored in Kenya's unveiled Vision 2030 initiative as a key pillar and driver of social and economic improvement through job and wealth creation. In the outsourcing sector of the Kenyan economy, the largest amount of attention has been centered on call centers. Companies such as *Kencall*, *Skyweb Evans* and *Ken-Tech Data* are some of the better

established and successful call centers in Kenya. Setting up a call center requires large financial resources, technical expertise and international business development. For these reasons, this may not be most ideal of the outsourcing opportunities.

However, there are many low-cost entry points into the outsourcing sector. One of these is by leveraging online marketplaces that enable individuals and businesses alike to bid for outsourced assignments. Some of the largest online outsourcing marketplaces include *eLance*, *RentACoder*, and *Guru* which enable anyone from a software developer to an accountant to create their service profiles and then bid against competing bidders for assignments from practically every corner of the world.

Outsourcing is generally broken down into two distinct areas, Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) (*Moses Kemiba 2009*).

BPO, fundamentally, is the contracting of operations and responsibilities of a specific business function to a third-party service provider. Examples of BPO services include information technology systems management, multimedia and animation, bookkeeping and financial services, business consulting, computer assisted design, call centers, data entry, desktop publishing, typesetting, handwriting services, human resources services, internet marketing, legal services, medical billing, proofreading, editing, software & technology, transcription, web design and web development, writing and translation.

KPO, on the other hand is outsourcing in which knowledge-related and information-related work is carried out by workers in a different company or by a subsidiary of the same organization. Examples of KPO services include knowledge processing services, intellectual property research, animation and simulation services, data research and

analytics, litigation services, medical content and services, pharmaceuticals services, writing/content development services and database development services. (Moses Kemiba 2009)

## **1.2 Statement of the Problem**

Despite the enormous benefits and superior performance through outsourcing of services and goods, majority of businesses continue to use the conventional ways of providing services, when outsourcing of such services clearly indicates that the operational cost reduction and efficiency in delivery will be achieved.

As much as it is every's organisation desire and goal to increase its revenues by cost reduction, there are other benefits that accompany outsourcing strategies such as: attaining efficiencies, gain access to world-class capabilities, creating a rich environment of resources that might have been insufficient internally and sharing risks with a partner company(Quinn and Hilmer, 1994). Among the main objectives, parastatals existed to render subsidised services to the public hence protect them against exploitation until recently when pressure has amounted on them to attain self sustainability.

This study therefore aimed to fill this dearth in literature as concerns the experience of outsourcing in Government parastatals. It gave special concentration to the Kenya revenue authority, partially owned by the government and in a non productive industry. To bring out the effects of outsourcing strategies wholistically in relation to organizational performance in a Kenyan context.

### **1.3 Objective of the Study**

The study was guided by the following objectives.

#### **1.3.1 Main Objective**

The main objective of this study was to examine the effects of outsourcing strategies on Organization performance of The Kenya Revenue Authority.

#### **1.3.2 Specific Objectives**

- i. To establish the effects of single supplier outsourcing strategy on Organization performance.
- ii. To find out how multiple suppliers outsourcing strategy affects Organization performance.
- iii. To examine the effects of joint ventures outsourcing strategy on Organization performance.

### **1.4 Research Questions**

In order to address the above stated research problem, this study will be guided by the following research questions:

- iv. How does single supplier outsourcing strategy affects Organization performance?
- v. What are the effects of multiple suppliers outsourcing strategy on Organization performance?
- vi. How does joint venture outsourcing strategy affect Organization performance?

## **1.5 Significance of the Study**

This study is significant as the results are invaluable to the following parties: The management of various parastatals will not only know how to apply but also put measures in place to reverse any adverse effects of outsourcing in their organisations.

The academics and researchers who will use the findings of this study as a basis for further research in determining the sustainability of outsourcing as an approach to the management of organisations.

## **1.6 Scope of the Study**

The scope of this study was limited to the Kenya Revenue authority which was among the best performing parastatals in Kenya.

## **1.7 Limitation of the Study**

### **1.7.1 Information access**

There was problem of information access given the secrecy policy of most parastatals. However, the access problems were overcome by seeking proper authorisation from the university and the various Government authorities in Kenya mandated with the responsibility of daily management of KRA.

### **1.7.2 Results only applicable to Kenyan context**

The application of these results as far as the outsourcing strategy is concerned may be limited to Government parastatals in Kenya given that the model used is a semi autonomous government institution.

Any attempt to apply the results to other industries should be approached with care since the primary focus of this study is on outsourcing in parastatals.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents a review of literature on the various variables used. The chapter is organised as follows: first, a theoretical framework is presented where various theories related to the concept of outsourcing are provided. This is followed by Concept of performance at the revenue authority, literature related to the Kenya Revenue authority, conceptual framework and finally an empirical review of literature where various studies done on outsourcing are presented. The knowledge gap is also identified here.

### **2.2 Theoretical review**

The following are some theories used that relates to the Concept of outsourcing strategy and management.

#### **2.2.1 Resource-based theory and how it relates to strategic management.**

This theory was developed by Pfeffer and Salancik (1978). The Resource-Based View (RBV) is an economic tool used to determine the strategic resources available to a firm. The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Hoopes, et al 2003). If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

The resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy (Hoopes, et al 2003). The business strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment. These may include human, infrastructure, financial and physical resources.

According to resource based theory, organisations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner to do so. Outsourcing of cataloguing is easier to rationalise using resource-based theory as this emphasises that cost-effective solutions are required to some of the major activities, in order to fulfil the main aim of the organisation (provide organised access to resources).

### **2.2.2 Resource-dependent theory and how it relates to strategic management.**

Organizational success in resource dependency theory (RDT) is defined as organizations maximizing their power (DiMaggio and Powell 1983). Research on the bases of power within organizations began as early as (Weber, 1947) and included much of the early work conducted by social exchange theorists and political scientists. Generalization of power-based arguments from intra-organizational relations to relations between organizations began as early as (Selznick, 1949). RDT characterizes the links among organizations as a set of power relations based on exchange resources.

The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Nevertheless, a theory of the consequences of this importance was not formalized until the 1970s, with the publication of *The External Control of Organizations: A Resource Dependence Perspective* (Pfeffer 1981). Resource Dependence Theory (RDT) has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy.

Resource Dependence Theory is one of many theories of Organizational studies regarding the behaviour of organizations. In many ways, the predictions of Resource Dependence Theory are similar to those of Transaction cost economics, but it also shares some aspects with Institutional theory.

With resource dependent theory, the environment of the organisation is almost as important as the organisation itself. The principle is that organisations adopt strategies to gain access to critical resources, to stabilise relationships with the external environment and to secure survival. With this theory, collaborative licensing deals are easy to rationalise. Collaboration allows access to resources (more effectively and more efficiently than without), deals lessen the problems of negotiations with many publishers on an individual basis, and survival (managing diminishing budgetary resources) is more assured. Some individual choice over selection has gone, but more is gained for

apparently less effort in staff time. This is why the Kenya Revenue authority, with an aim of enriching its environment, has gone for outsourcing strategies.

### **2.2.3 Transaction cost theory (TCT) and how it relates to strategic management.**

Coase, (1937) set out his transaction cost theory of the firm making it one of the first (neo-classical) attempts to define the firm theoretically in relation to the market. Coase sets out to define a firm in a manner which is both realistic and compatible with the idea of substitution at the margin, so instruments of conventional economic analysis apply. He notes that a firm's interactions with the market may not be under its control (for instance because of sales taxes),

If a firm operated internally under the market system, many contracts would be required (for instance, even for procuring a pen or delivering a presentation). In contrast, a real firm has very few (though much more complex) contracts, such as defining a manager's power of direction over employees, in exchange for which the employee is paid. These kinds of contracts are drawn up in situations of uncertainty, in particular for relationships which last long periods of time. Such a situation runs counter to neo-classical economic theory. The neo-classical market is instantaneous, forbidding the development of extended agent-principal (employee-manager) relationships, of planning, and of trust. Coase concludes that "a firm is likely therefore to emerge in those cases where a very short-term contract would be unsatisfactory," and that "it seems improbable that a firm would emerge without the existence of uncertainty."

He notes that government measures relating to the market (sales taxes, rationing, price controls) tend to increase the size of firms, since firms internally would not be subject to such transaction costs. Thus, Coase defines the firm as "the system of relationships which comes into existence when the direction of resources is dependent on the entrepreneur." We can therefore think of a firm as getting larger or smaller based on whether the entrepreneur organises more or fewer transactions. This therefore justifies why it might be imperative for adoption of outsourcing strategies at the KRA leading to reduced transaction and consequently cost.

#### **2.2.4 Agency cost theory (ACT) and how it relates to strategic management.**

Agency theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1989). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

The problems of adverse selection and moral hazard mean that fixed wage contracts are not always the optimal way to organize relationships between principals and agents (Jensen and Meckling, 1976). A fixed wage might create an incentive for the agent to shirk since his compensation will be the same regardless of the quality of his work or his

effort level. When agents have incentive to shirk, it is often more efficient to replace fixed wages with compensation based on residual claimancy on the profits of the firm (Alchian and Demsetz, 1972). The provision of ownership rights reduces the incentive for agents' adverse selection and moral hazard since it makes their compensation dependent on their performance (Jensen, 1983).

The establishment of a hybrid organizational form does not eliminate all agency costs. Rather, the sale of residual claimancies on the profits of retail outlets creates a number of new agency costs, which come from the management of hybrid organizational arrangements. Agency cost theory expands on one aspect of TCT, as it deals with the different perspectives of risk that client and supplier have, and differentiates between outcome-based contracts, and behaviour-based contracts. If the client distrusts the supplier then the extent of monitoring required will be greater for the client, than it would be if the client could wholly trust the supplier to deliver. The client has two main choices: a contract which stipulates payment by results (an outcome-based contract), or a contract that states the supplier should do certain things at stipulated times, or spend a certain amount of time on certain functions. If one cannot trust a supplier to deliver a product some months down the line, then it might pay to ensure that it looks as if they are doing something. On the supplier side, a behaviour-based contract at least allows them to claim that they did spend x hours on this task, even if the outcome could not be achieved as originally intended. Agency cost theory helps to distinguish the most productive and fairest method of minimising risks for both client and supplier (Eisenhardt, 1989). This theory therefore relates to the expected outsourcing relationship between the KRA and

the strategic partners. Agency cost theory helps to distinguish the most productive and fairest method of minimising risks for both client and supplier as explained by (Eisenhardt, 1989).

### **2.3 Kenya Revenue Authority**

Over the past 14 years since its formation, KRA has achieved an exemplary record of successfully mobilising the bulk of Government revenue at minimal cost. It has also performed its non-revenue functions with a high degree of professionalism and efficiency as evidenced by having the lowest collection cost in the region as well as winning several performance-related awards. The functions of the Authority are:

To assess, collect and account for all revenues in accordance with specific laws set out in the first part of the First Schedule and the revenue provisions of the second part of the First Schedule (which contains written laws relating to revenue),

To advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws,

To perform such other functions in relation to revenue as the Minister for Finance may direct, and performing such other functions in relation to revenue as the Minister may direct.

In fulfilling its mandate, KRA administers 17 revenue Acts, with the key ones (in terms of revenue importance) being the Value Added Tax (VAT) Act (Cap. 476), the East African Community Customs Management Act (EACCMA), the Income Tax Act (Cap. 470), the Customs and Excise Act (excise provisions) (Cap. 472) and the Traffic Act (Cap. 403).

KRA is a Semi Autonomous Government Agency (SAGA) established by a statute (Cap. 469), a body corporate with its own Board of Directors, the power to sue and be sued and to hold property on its own accord. The Board is responsible for approval and review of policies and monitoring the functions of KRA, while day-to-day operations are the responsibility of the Commissioner General. The Commissioner General is assisted by six commissioners, six departmental heads and five regional heads. (Fifth corporate plan 2012/13 - 2014/15)

Some of the outsourcing efforts the Authority as highlighted in its fourth corporate plan includes: Entering into an MOU with the University of Canberra (Australia) and the JKUAT to offer management courses. Re-engineering business processes and modernising technology: the goal was to be achieved by modernising IT systems, improving IT security and modernising business processes and infrastructure. During the plan period, IT initiatives included the modernisation of the Customs (CSD) SIMBA 2005 system and its rollout to the stations, introducing additional Customs Services Department (CSD) systems including the Customs Oil Stocks Information System (COSIS) and the Valuation data base, acquisition of cargo X-ray scanners to assist in verification and detection, the development and implementation of the Domestic Taxes (DTD), Integrated Tax Management System (ITMS) and modernising the Road Transport Department's (RTD) Vehicle Management System (VMS) to allow it to communicate seamlessly with the SIMBA 2005 system. Business processes were improved by implementing the Revenue Authority Digital Data Exchange (RADDEX) which allows for sharing of customs information with Kenya's regional partners,

introducing self assessment declarations in customs management and initiating implementation of the one stop border post as part of the East African Trade and Transport initiative.

A string of achievements characterised the Third plan period include: introduction of e-filing and e-registration for Domestic Taxes through the Integrated Tax Management System (ITMS); Computerisation of cash receipting through the Computerised Cash Receipting System (CCRS), Taxpayer Segmentation, and acquisition of enforcement tools such as scanners, patrol boats, and Electronic Cargo Tracking System (ECTs). During this period, KRA was also able to review the functional structure of several departments as well as achieve ISO 9001: 2000 certification.

KRA established partnerships with key stakeholder organisations such as Kenya International Freight and Warehousing Association (KIFWA), Association of Kenya Insurers (AKI),

(Motor Vehicles Owners Association) MVOA. To further facilitate compliant. by taxpayers, the Authorised Economic Operator (AEO) scheme, gives preferential treatment to compliant traders, which was launched in 2007/08. Taxpayer segmentation was implemented in Domestic Taxes Department (DTD) while capacity building was enhanced through partnership with international organisations such as Japan International Corporation Agency (JICA), USAID, International monetary Fund (IMF) and World Bank. Initiatives to simplify the tax process included KRA re-branding to enhance its corporate image, the establishment of the Customs Valuation and Excise Tribunal and enhanced Corporate Social Responsibility (CSR) programmes.

A string of achievements characterised the Third plan period include: introduction of e-filing and e-registration for Domestic Taxes through the Integrated Tax Management System (ITMS); Computerisation of cash receipting through the Computerised Cash Receipting System (CCRS), Taxpayer Segmentation, integration of Custom Services Department Simba 2005 System with the Road Transport Department's Vehicle Management System (VMS); and acquisition of enforcement tools such as scanners, patrol boats, and Electronic Cargo Tracking System (ECTs).

To improve training infrastructure at the Kenya Revenue Authority Training Institute, (KRATI) was established to make it a regional centre of excellence. Further, KRATI entered into an MOU with the University of Canberra (Australia) and JKUAT to offer management courses. KRA is currently in discussion with ESAMI and the University of Nairobi to collaborate on training on taxation. KRA has also collaborated with the Ministry of Education to develop a tax education curriculum for use in schools and established customer service desks as well as reorganised the call centre programme to improve service delivery.

**Document Processing Centre (DPC):** A 24-hour DPC was operationalised, to cater for the centralised processing of import documents. Clearing agents and importers can now lodge their documents any time of day and from anywhere in the world. Entries are processed within 24 hours of being lodged.

**Valuation Database:** KRA began the process of acquiring a valuation database through a Government to Government arrangement with India. A ground study on the valuation database was done and software developers were identified to design and develop the valuation database system. The database is expected to address the current valuation challenges and boost revenue collection.

**Integration with stakeholder systems:** Due to the strategic relationship with Kenya Ports Authority (KPA), KRA developed an interface between its systems (SIMBA and CAMIS) and the KPA system (KWATOS) for exchanging data that facilitates faster cargo clearance from the port of Kilindini.

The Authority received enforcement and detection tools from several agencies including: Japan International Cooperation Agency (JICA) donated motor vehicles fitted with communication devices and motorcycles; the US Customs and Border Protection donated equipment for detection of narcotics, explosives, and radioactive materials; the Kenya Ozone Office through National Environment Management Authority (NEMA) donated radiation detection equipment for detecting Ozone Depleting Substances; and the International Atomic Energy Agency (IAEA) donated radioactive detecting equipment for use by customs officers at Kenya borders.

## **2.4 Concept of Performance**

Generally, performance evaluation has been about reviewing, auditing, measuring and improving the performance of an organisation and establishing how well it is progressing towards achieving its goals and objectives. (Kennerley and Neely 2002) added that measurement also establishes the effectiveness of evaluation at each level. Moreover, the

information generated by performance evaluation helps managers in making decisions, undertaking analysis, identifying points of weaknesses, planning and setting targets

The Development of Performance Indicators in Tax Administration (Frampton 1993) considered the important components of tax administration to be efficiency, responsiveness and motivation. In addition, the (OECD 2001) stated that an effective tax administration should consider the relationship with taxpayers, employees, laws and changes arising from globalisation. To set the standard of effective tax administration, a tax organisation should assess tax administration in the whole system.

Musgrave, (1969) suggested that tax performance of a developing country should be evaluated by the ability to pay approach, efficient resource use approach, ability to collect approach and comparison with average performance. The (OECD 2001) evaluated performance in tax administration of OECD countries by focusing on efficiency, service quality and effectiveness. In other words, the scope of evaluation relates to input, output, productivity, quality, taxpayer satisfaction and the outcomes from revenue and compliance. The main input measures are cost and labour hours whereas output measures are usually associated with the number of taxpayers or tax returns and the number of audits and verifications. Productivity is shown in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue etc. Finally, the quality of service or taxpayer satisfaction is one of important factor for measurement. This may be shown by processing time for an application, the accuracy of the assessments and so on. This information should come regularly from the results of taxpayer surveys. (Teera 2003) claimed tax performance, particularly, in developing countries, is ordinarily evaluated by

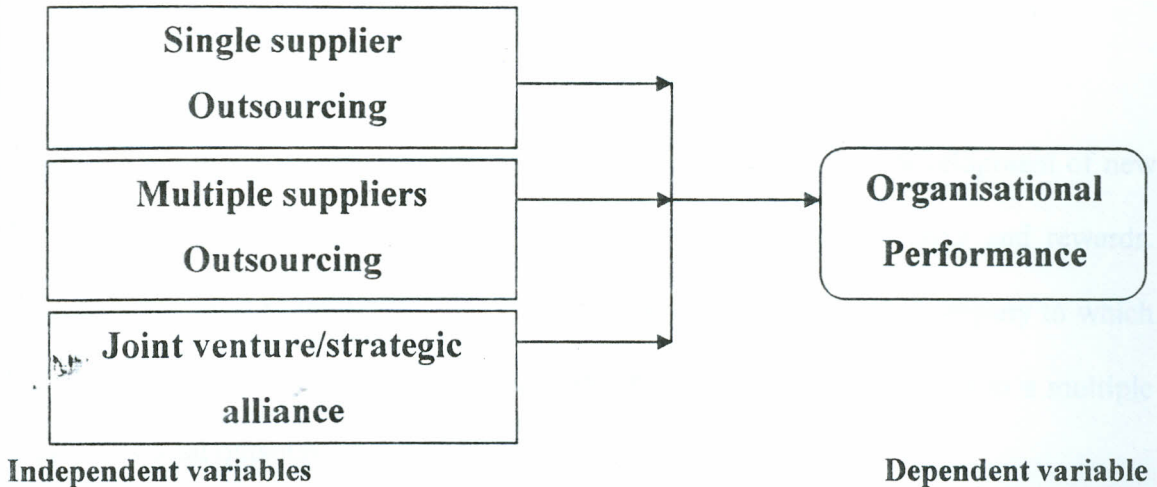
the taxable capacity and tax effort. Tax effort is considered by the expected tax yield given a country's taxable capacity.

In conclusion, the general principles of performance evaluation in tax administration are not considerably different from PI in the government sector. It still focuses on output, outcome and productivity. Tax revenue collection is the first measurement that should be considered. In addition, quality of services and taxpayer satisfaction are significant indicators that tax authorities should use. Finally, tax employees should be strongly motivated to improve tax collection performance.

## **2.5 Conceptual Framework**

A conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea or thought (Mugenda and Mugenda, 2003). The following conceptual framework in figure 1.1 shows the relationship between the independent variables and dependent variable. In this study the independent variables will be the various outsourcing strategies. The dependent variable will be the organisational performance. It also has Moderating variables between the two which are the various Government policies

**Figure 1.1: Conceptual Framework**



Source: Author (2012)

## 2:6 Operationalization

### 2:6.1 Independent variable.

An independent variable is a variable that is being manipulated in an experiment or research in order to observe its effect on a dependent variable, in this case being the outsourcing strategies (Mugenda and Mugenda, 2003). Distinguish four types of outsourcing in their research on outsourcing approaches. These include total outsourcing, multiple suppliers outsourcing, joint venture/strategic alliance outsourcing and insourcing (Currie & Willcocks, 1998). Total outsourcing involves developing a partnership with a single supplier, with IT perceived as a service or support function. The aim is usually to reduce IT costs, or eliminate a problem. The outsourcing organisation retains strategic control.

Multiple suppliers sourcing are less concerned with partnerships. The aim is to foster innovation and create competition between suppliers, although it is recognised that suppliers will form alliances among themselves for bidding purposes. Contracts are

usually short-term, and the client co-ordinates a portfolio of services from various suppliers, with the aim of retaining strategic control.

Joint venture/strategic alliance outsourcing is more concerned with development of new knowledge for the client, and there is more emphasis on shared risks and rewards. Sometimes various organisations will foster the creation of a supplier company to which they will outsource work, but still have more control than they would do in a multiple supplier or total outsourcing arrangement.

Insourcing, or keeping the IT department and services in-house, occurs when organisations view IT as core to their business, or when they mistrust possible suppliers.

A more recent type of outsourcing is the ASP (application service provider) model, where organisations purchase software use on an 'as and when' basis (Kern, Kreijger, & Willcocks, 2002).

### **2:6:2 Dependent variables.**

A dependent variable is a variable that is measured, predicted, or otherwise monitored and is expected to be affected by manipulation of an independent variable (Mugenda, 2008). In our case is the organisation performance. Some of the indicators includes improved performance, cost reduction, reduced cost shared risk among others (Quinn & Hilmer, 1994).

## 2.7 Reasons for Outsourcing

The decision to outsource part of a company's functions or activities is prompted by a variety of considerations.

Potential cost savings, access to technological innovations and strategic considerations, (Quinn and Hilmer, 1994), concerned with scale and scope economies and possibly growth expectations.

Both small-sized and large-sized companies entered into outsourcing agreements. This is consistent with the. Theoretically, larger companies already enjoy economies of scale in their own right for most areas of their activities. Smaller companies, which have the highest scale disadvantage and are generally more flexible in absorbing changes and innovations, might therefore be expected to be enthusiastic users of outsourcing, since this should allow them to achieve the same efficiency as large companies in sub-competitive parts of their value chain. Nevertheless it appears that larger companies are the biggest users of outsourcing (Mullin, 1996). Testing the relation between outsourcing in terms of outsourcing payment to sales revenue and company size gives an important insight into factors in addition to economies of scale that might influence the outsourcing decision.

Possibilities such as economies of scope, reinforcement of competitive advantage, and possibly advantageous outsourcing transaction cost may be relevant.

Clearly both large-sized companies and small-sized companies have an incentive to improve competitiveness. Accessing outsourcing opportunities, as with any other competitive innovation, is a necessary but not sufficient condition for increasing or maintaining companies' profit or economic rent (Mullin, 1996). To achieve competitive advantage, companies need to understand their source of competitive advantage.

In particular, a unique way in which core-business capabilities can be allied with technical and environmental factors provided by outsource partners may be instrumental in creating advantages that are hard to imitate. Activities that cannot deliver such advantage logically can be described as complementary services which could be acquired from an outside contractor, especially one that can provide competitive advantage and is willing to share this advantage with the outsourcing company.

Outsourcing may be motivated by a desire to secure direct benefits, indirect benefits or a combination of these. Direct benefits are obtained where outsource companies provide the same or better service for the same or less cost than could be achieved in internal process by the company. If this is not possible then services would be retained in-house unless significant indirect benefits are obtained. These indirect benefits would arise if opportunity benefits can be achieved by re-applying scarce resources liberated by outsourcing to more productive (competitive) functions retained by the firm.

## **2.8 Empirical Review**

Novak and Stern, (2007) Examined the impact of vertical integration on the dynamics of performance over the automobile product development lifecycle. Building on recent work in organizational economics and strategy, they evaluated the relationship between vertical

integration and different performance margins. The tests were done using detailed data from the luxury automobile segment, establishing three key results.

First, initial performance was declining in the level of vertical integration. Second, the level of performance improvement was significantly increasing in the level of vertical integration. Finally, the impact of vertical integration on alternative performance margins was mediated by the level of pre-existing capabilities, by the salience of opportunities to access external technology leaders, and by the scope for learning over the product lifecycle. Together, the findings highlighted a strategic governance trade off between short-term performance and the evolution of firm capabilities.

Jiang et al., (2006) empirically investigated the effect of outsourcing on firm level performance metrics, providing evidence about outsourcing influences on a firm's cost-efficiency, productivity and profitability. The study was concerned with empirically examining the impact of outsourcing on a firm's performance. The results were based on a sample of 51 publicly traded firms that outsourced parts of their operations between 1990 and 2002. Publicly available accounting data were used to test for changes in operating performances that resulted from outsourcing decisions. Operating performances were examined over a four-quarter period after the outsourcing announcement. This research provided evidence that outsourcing can improve a firm's cost-efficiency. While existing literature on outsourcing have also sought to draw anecdotal and conceptual evidence that highly visible companies have improved their productivity and profitability

as well through outsourcing, the study reveals no evidence that outsourcing improves a firm's productivity and profitability.

Broedner et al., (2009) presented an empirical investigation of firm level productivity effects of outsourcing against the background of a review of recent theoretical considerations about the topic. The empirical research was based on a large representative data set from the German manufacturing industries containing detailed data about almost 500 establishments. It investigated productivity effects of outsourcing under control of other relevant factors influencing firm level productivity by means of a multivariate regression analysis. In sharp contrast to common belief and prevailing management practices, outsourcing had a strong negative impact on a firm's labour productivity. This result can be explained such that mere cost-efficiency comparisons are insufficient for appropriate decisions on vertical manufacturing range as the effects of opportunism, of disturbed competence formation, and of limited innovative value creation processes may be overcompensating cost benefits.

Gilley, (2000) empirically examined the extent to which outsourcing of both peripheral and near-core tasks influences firms' financial and non-financial performance. In addition, the potential moderating effects of firm strategy and the environment on the outsourcing-performance relationship were examined. Results indicated that, whereas there was no significant direct effect of outsourcing on firm performance, both firm strategy and environmental dynamism moderated the relationship between outsourcing and performance.

## **2.9 Research and theoretical Gaps**

From the above critical review on the theories related with outsourcing strategies where some key issues were raised, this research therefore aimed at finding out the outcomes of adopting outsourcing strategies.

The above empirical review further showed that, there were numerous studies that had been done on outsourcing and its influence on firm performance. These studies were done in different environments from Kenya. Further, these studies covered various industries and it was of need to investigate the practice in a Kenyan, service and semi autonomous organisation. Thus, a gap identified in literature as regards effects of outsourcing strategies on organisational performance among public institutions and parastatals in Kenya. A gap bridged by this study.

## **2.10 Summary**

Through outsourcing, companies generally terminate the continuing direct costs of the resources they have transferred such as employment costs. Another benefit is that there is reduced transaction costs associated with redundancy while the outsource contractor accepts liabilities for these resources. Additionally they may also avoid any investment expenditure (and often other employment) that may be involved in supporting the outsourced activities. For example, companies can avoid investment in recruitment and employee training. They may also be able to reduce the personnel support staff previously needed to support the outsourced staff and may dispose of physical assets or workspace. The empirical evidence suggests that transferring production to an external source leads to reductions in expenditure. There are a number of possibilities: substitution

of capital for labour, more efficient work practices, economies of scale, innovation, labour shedding, and increases in work intensity are just a few.

Several explained the relationship between productivity growth and outsourcing. Taylor and Abraham, (1996) find that firms “contract out” services with the objectives of smoothing production cycles and benefiting from specialization. They also find a positive association between the rate of outsourcing and productivity growth. Efficient firms allocate their resources to activities for which they enjoy comparative advantage. Other activities are increasingly outsourced. Contracting out production of goods and services to a firm with competitive advantages in terms of reliability, quality and cost.

Outsourcing also bring in facilities to serve short-term needs, pouring cash into buildings may not match their long-term plans. When possible, firm should focus on reducing inventory, another cash drain, to minimize the need for additional facilities. When more space is needed, firms may lease and still avoid long-term investment obligations. Payment through the payroll, also increases. Salaries are a large part of a business's costs, particularly in service industries (Quinn, 1994). Independent contractors are a direct way to outsource for the task. Thus, when sales are up, revenue is available to cover the higher salary expenses. When sales are down, firms are not tied to unrealistic salary costs.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

According to (Greswell 2003), methodology describes the overall approach undertaken by the study to achieve the set objectives. It is a strategy or a plan of action that links methods to outcomes. This chapter explained the methods and tools to be employed in the study so as to gather necessary data for this study. This chapter contained; the research design, target population, data collection instruments, data collection procedures, validity and reliability and finally data analysis and presentation.

### **3.2 Research Design**

The study used a descriptive research design as a strategy research in order to understand or explain the phenomena, which is effect of outsourcing strategies, by placing them in their wider context, which is the specific institution within the government parastatals. The reason for this choice was based on the knowledge that it's the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships and also they provide a holistic understanding of the phenomena (Cooper and Schinder, 2005).

### **3.3 Study Population**

According to (Cooper and Schindler, 2003), population is a total collection of elements about which we wish to make some inferences. Target population refers to all members of a real set of people, events or objects to which the study generalize hypothetical results of the research. It is a list of elements, people, events or objects . A population frame is a

comprehensive itemized list of all subjects, which comprise the study population, from which a sample will be taken (Collin and Hussey, 2003).

The target population for this study was therefore the Kenyan revenue authority (KRA). KRA was made of 14 departments at that particular time, with a roughly estimate of 4571 members as at May 2012, (Fifth Corporate Plan 2012/13 - 2014/15). The Justification of choosing The Kenya Revenue Authority was that the institution had recorded significance improvement in its revenue performance. It was also a semi autonomous government service agency whose performance was affected by institutions in both public and the private sector as evidenced in its Fourth Corporate Plan 2009/10 - 2011/12.

**Table 3. 1 Total population at the KRA**

<b>DEPARTMENT</b>	<b>CURRENT STAFF IN CAPACITY</b>
Board Corporate Services and Admin.	610
Customs Services Department	1,461
DTD-LTO	244
DTD-MST	1,171
Finance	228
Headquarters Treasury	34
Human Resources & KESRA	139
Information Communication Technology	151
Internal Audit & Risk Management	38
Investigation & Enforcement	164
Legal Services	18
Road Transport Department	194
Marketing & Communication	65
Support Services (R&CP, Laboratory, QMP, Integrity)	54
<b>TOTAL</b>	<b>4,571</b>

Figures obtained from the Fifth Corporate Plan 2012/13 - 2014/15 page 99.

### 3.4 Sampling and sample size

Cooper and Schinder (2003) defines sampling as a selection of a few items (a sample) from a bigger group (population) to become the basis for estimating or predicting the prevalence of an unknown piece of information, situation or outcome regarding the bigger group. A sample is a subgroup of the population that the researcher is interested in (Sekaran, 2003).

According to (Collin and Hussey, 2003), the size of the sample depends upon the precision the researcher desires in estimating the population parameter at a particular confidence level hence there is no single rule that can be used to determine sample size. Therefore, from the study, a sample size of 10% was taken from every stratum, giving a respondent base of 136 consisting of Board Corporate Services and Admin, Finance, Headquarters Treasury, Human Resources, Information Communication Technology, and Internal Audit, Risk Management and Investigation & Enforcement, as shown on table 3.2 below. This sample size was considered representative and comprehensive in the coverage of the study objectives and economical in terms of time and money. This study therefore used stratified random sampling method as shown in figure 3.2 below. Stratum included Board Corporate Services and Admin, Finance, Headquarters Treasury, Human Resources, Information Communication Technology, Internal Audit, Risk Management and Investigation & Enforcement. These were the people involved with strategy formation; implementation and assisted in assessment of effects of the adopted strategies at the institution.

Sampling for the respondents from this category was determined using the Fischer formula for the population of more than 1.000 elements. This was done using 95% confidence interval - alpha level 0.005, one tailed (Fischer, 2007).

$$N = Z^2pq/d^2 \quad \text{Equation 1 (Hinggis and Feldt ,2001)}$$

n= desired sample size for a population more than 1.000

p= proportion of target population estimated to have characteristics. Where the proportion is not known p is taken to be 0.5

q = 1 —p (thus, 1 —0.5) = 0.5

Z = standard normal deviate (1.39) which corresponds to 95% confidence interval)

d = Degree of accuracy or level of significance (alpha level) = 0.005

Therefore desired sample size (n) =  $1.39 * 0.5 * 0.5 / 0.005^2$

$$n = 139$$

The researcher utilized the sample size criteria given by (Mugenda and Mugenda, 2008) who indicated that a sample size of 10% to 20% is sufficient for the study.

**Table 3. 2 Sample size**

<b>DEPARTMENT</b>	<b>CURRENT STAFF CAPACITY</b>	<b>Sample %</b>	<b>Sample Size</b>
Board Corporate Services and Admin.	610	0.1	61
Finance	228	0.1	23
Headquarters Treasury	34	0.1	3
Human Resources	139	0.1	14
Information Communication Technology	151	0.1	15
Internal Audit & Risk Management	38	0.1	4
Investigation & Enforcement	164	0.1	16
<b>TOTAL</b>	<b>1,364</b>		<b>136</b>

**Source; Author (2012)**

### **3.5 Data Collection Instrument**

Primary data was collected using a questionnaire, observation, (Cooper and Schindler, 2006). A questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaires were distributed to respondents who read and understand the questions and wrote down the reply in the space meant for the purpose, as explained by (Kothari, 2004). The main research instrument was the research questionnaire.

The questionnaire includes open and close ended questions. It was designed in line with the objectives of the study. It was preferred because the responses were gathered in a standardized way, so questionnaire was seen to be more objective, certainly more so than interviews (Saunders 2003). It was also relatively quick to collect, analyze and flexible in facilitating the capture of in-depth knowledge of the respondents. It promoted

respondent cooperation as observed by (Ngechu, 2004). The choice of the respondents was very important, as the selected strata were the ones better placed to give the effects of implementation of the various strategies at the organisation. Additionally, they provided access to more significant and useful information. Secondary data was collected from the existing publications relating to the subject. This was obtained from 1st to the 5th corporate plan that stretches from 2009 to 2012 among others.

### **3.6 Data Collection Procedure**

Data collection commenced with a research permit from the University upon recommendation by the supervisor. Thereafter a clearance letter to conduct the research obtained from the Kenya Revenue Authority authorities. The questionnaires with a brief introduction for the purpose of the research were distributed to the selected population. The questionnaire mainly contained closed and open ended questions allowed for intensity and richness of individual perceptions in respondent responses as identified. Each respondent received the same set of questions in exactly the same way. A letter requesting for information accompanied the questionnaire explaining the purpose of study to the respondents.

### **3.7 Validity and Reliability**

Mugenda and Mugenda, (2003) asserted that, the accuracy of data to be collected largely depended on the data collection instruments in terms of validity and reliability. Validity as noted by (Kothari, 2008) is the degree to which the results obtained from the analysis of the data actually represents the phenomenon under study. Validity of the data

collection instrument was ensured by formulating questions related to objectives of the study. This was achieved by pre-testing the instrument that was used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by (Cooper and Schindler, 2003).

Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda and Mugenda, 2003). Reliability also refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. In order to establish reliability test retest method was used to ascertain the reliability (Kothari, 2008). The questionnaire was piloted from another ministry which was not included in the study sample (Ngechu, 2004). This helped correcting any ambiguity in the questionnaire and enable the study collect the relevant information to answer the research questions. The pre-test was also done to enhance clarity of the questionnaires.

### **3.8 Data Analysis and Presentation**

The researcher collected data in large quantity organized in such a way that analysis and interpretation of data was made easy. The data was edited, coded and classified so as to present the results of the data analysis in a systematic and clear way (Kothari, 2008). Data was analyzed with the help of the Statistical Packages for Social Sciences (SPSS) package. Descriptive statistics was used to summarize the data. These included percentages and frequencies (Ngechu, 2004). The study also used 1-5 Likert scale in the analysis of descriptive data. The Pie charts and tables were used to present the data collected for ease of understanding and analysis (Cooper and Schindler, 2006).

A linear regression model of between outsourcing strategies and how they affect performance was examined to establish the relationship between the variables in the conceptual framework (Sekaran, 2003). Outsourcing strategies were the independent variables while organization performance was the dependent variable.

The decision to outsource part of a company's functions or activities was prompted by a variety of considerations. Potential cost savings, access to technological innovations and strategic considerations. (Quinn and Hilmer, 1994), concerned with scale and scope economies and possibly growth expectations. Therefore, the researcher anticipated to confirm these facts out of the findings of this research.

## CHAPTER FOUR:

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction

This chapter discusses the interpretations and presentations of the findings. The main objective of this study was to examine the effects of outsourcing strategies on Organization performance. Data was analyzed using, frequencies and percentages and then presented in form of tables and pie charts.

##### 4.1.1 Response rate

###### Table 4. 1 Response rate

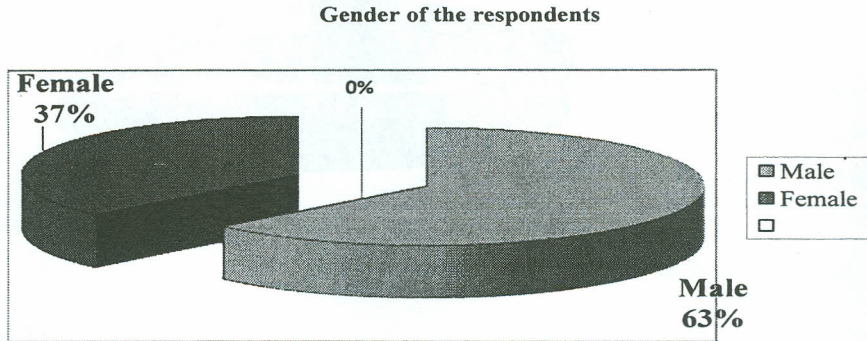
The target population was 136 respondents out of which 97 respondents completed and returned the questionnaires. This constituted to 71.32% response rate. The researcher administered the questionnaire with the help of the research assistant. Mugenda and Mugenda (2003) indicated that respondents of 50%, 60% and 70% response rate was sufficient for a study therefore 71.32% responses was good.

Respondents	Questionnaire administered	Questionnaire Filled	Response Rate
Board Corporate Services and Admin.	61	44	32.35
Finance	23	18	13.23
Headquarters Treasury	3	1	0.74
Human Resources	14	9	6.62
Information Communication Technology	15	13	9.56
Internal Audit & Risk Management	4	2	1.47
Investigation & Enforcement	16	10	7.35
<b>TOTAL</b>	<b>136</b>	<b>97</b>	<b>71.32</b>

Source: Author (2012)

## 4.2 General information

Figure 4. 1 Gender of the Respondents

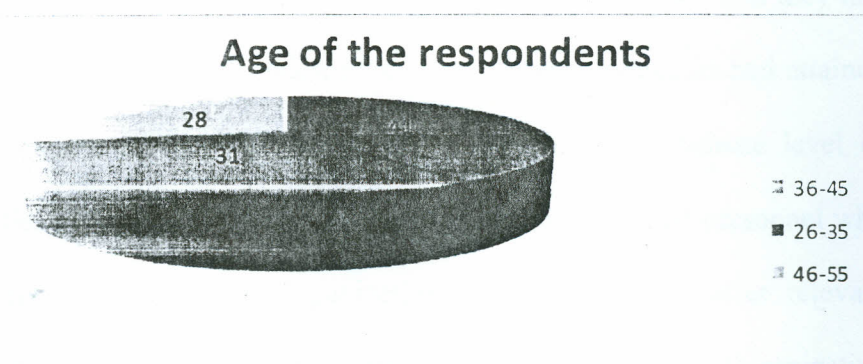


Source: Author (2012)

The study sought to investigate the gender of the respondents as indicated in figure 4.1. From the findings, majority 63% of the respondents were male while 37% of the respondents were female. This implies that both male and females are employed at The Kenya Revenue Authority and therefore information on the effects of outsourcing strategies on Organization performance was collected from both male and female respondents.

### 4.3 Bracket Age of the Respondents

Figure 4. 2 Bracket age of the Respondents



Source: Author (2012)

The study sought to know the age of the respondents as indicated in the Figure 4.2. From the findings 41% of the respondents indicated that they were aged between 36-45 years, 31% of the respondents indicated that they were aged between 26-35 years while 28% of the respondents indicated that they were above 46-55 years of age. This implies that majority of the respondents were termed as mature in age and therefore information collected from them validated.

### 4.4 Highest academic qualifications

Table 4. 2 Highest academic qualifications

	Frequency	Percent
University	51	52
College	24	25
Post graduate	22	23
Total	97	100

Source: Author (2012)

The study sought to investigate the highest academic qualifications attained by the respondents. From the findings, majority 52% of the respondents indicated that they had attained university highest level of education most 25% of the respondents had attained college level of education while 23% of the respondents had postgraduate level of education. This implies the Kenya Revenue Authority employed qualified personnel who could adopt outsourcing strategies on Organization performance thus offer relevant information concerning the effects of outsourcing strategies on Organization performance.

#### **Respondent's department in organisation**

	<b>Frequency</b>	<b>Percent</b>
Board Corporate Services and Admin	44	46
Finance	18	19
Information Communication Technology	13	13
Investigation & Enforcement	10	10
Human Resources	9	9
Audit and Risk	2	2
Headquarters Treasury	1	1

Source: Author (2012)

The study sought to know the department in which the respondents operated in KRA. From the findings majority of the respondents indicated that they were in board/admin services, finance, information technology and investigation and enforcement departments as indicated by 46%, 19% and 13% of the respondents. The study further found that 9%, 2% and 1% of were in human resources, audit and treasury departments. This implied that the information on effects of outsourcing strategies on organization performance was

collected from individual who were in a position to offer the correct information to answer the research questions.

**Table 4. 3 Respondent’s length of service at the Kenya Revenue Authority**

	<b>Frequency</b>	<b>Percent</b>
Five years and above	28	29
Four years	25	26
Three years	21	22
Two years	13	14
Less than one year	9	9
<b>Total</b>	<b>97</b>	<b>100</b>

Source: Author (2012)

The study requested the respondents to indicate the years they had been working at KRA as indicated in the Table 4.4. From the findings, 29% of the respondents indicated that they had been working at KRA for five years and above, most 26% of the respondents had been working for four years, 22% indicated three years while 14% said two years and 9% of the respondents said less than one year. This implied that information was collected from individuals who had experiences on how outsourcing strategies adopted by Kenya Revenue authority influence performance.

### 4.3 Types of services and/or goods that are outsourced in the organisation

**Table 4. 4 Services and goods being outsourced by the organisation**

<b>Service</b>	<b>Mean</b>	<b>Std dev.</b>
Security Services	4.89	0.88
Printing Services	4.47	0.53
Internal audit	4.79	0.87
Human resources	4.89	0.48
Support Services	4.44	0.45
Information technology	4.49	0.48
Debt collection	4.66	0.87
Training	4.58	0.71

Source: Author (2012)

The study sought to know the extent to which the respondents agreed on the given statements on services and goods that were being outsourced by the organisation. From the findings majority of the respondents strongly agreed that security services, internal auditing, debt collection and training services as indicated by a mean of 4.89, 4.79, 0.66, and 4.58. The respondents agreed that the organization outsourced information technology, printing and support as indicated by a mean of 4.49, 4.44 and 4.11 respectively. On what sources were outsourced in the organization, majority of the respondents indicated that KRA management outsources, security, cleaning, ICT and human resources services.

#### 4.4 Factors to consider when sourcing for services or goods

Table 4. 5 Factors to consider when sourcing for services or goods

<b>Benefit</b>	<b>Mean</b>	<b>Standard deviation</b>
Cost reduction	3.754	0.9359
Focus on core competency	3.227	0.4236
Access to specialised vendor	3.993	0.6581
Improved services	4.028	0.4812
Free resources	4.371	0.9934

Source: Author (2012)

The study requested the respondents to indicate the extent to which they agreed with the given benefits perceived before the organisation undertook an outsourcing decision. From the findings, majority of the respondents agreed that free resources and improved services were the factors considered when sourcing for services or goods as indicated by a mean of 4.371 and 4.028. It further found that most of the respondents moderately agreed that access to specialised vendor and cost reduction factors were considered when outsourcing as indicated by a mean of 3.754. The study further noted that most of the respondent disagreed that focus on core competency was not considered when outsourcing as indicated by a mean of 3.227. The findings concurred with Mullin, (1996) who indicated that companies, which have the highest achieved cost reduction, concentrated on core competencies and enhance flexibilities leading to high innovations in the organizations, more flexible in absorbing changes and innovations, enabling the firm to achieve efficiency as large companies in sub-competitive parts of their value chain.

### **Other benefits perceived before the organisation undertakes an outsourcing decision**

The respondents were requested to indicate other benefits perceived before the organisation undertakes an outsourcing decision. From the findings, the respondents indicated that the decision to outsource part of a KRA functions or activities is prompted by Potential cost savings, access to technological innovations and strategic considerations. The finding concurred with (Quinn and Hilmer, 1994) who indicated that outsourcing decisions in a company were prompted by scale and scope economies and possibly growth expectations through cost reduction, enhance flexibility and focusing on core competences influencing organization performance..

### **Risks perceived before the organisation undertakes an outsourcing decision**

**Table 4. 6 Risks perceived before the organisation undertakes an outsourcing decision**

<b>Risk</b>	<b>Mean</b>	<b>Standard deviation</b>
Strategic risks	3.6659	0.48765
Reputational risk	3.6122	0.50606
Compliance risk	4.4634	0.50485
Contractual risk	4.1619	0.48765
Counterparty risk	4.3366	0.50485
Access risk	4.2683	0.44857

Source: Author (2012)

The table 4.6 indicates the responses of the extent to which the respondents agreed on the given risk perceived before the organisation undertakes an outsourcing decision. From the findings, majority of the respondents agreed that compliance, counterparty, access

and contractual risk were perceived before the organisation undertakes an outsourcing decision as indicated by a mean of 4.4634, 4.3366, 4.2683 and 4.1619. The study further found that most of the respondents indicated that strategic and reputational risks were perceived before the organisation undertakes an outsourcing decision as indicated by a mean of 3.6659 and 3.6122. This clearly indicated that organization adopt outsourcing strategies to reduce risks facing the firm. This concurred with (Quinn & Hilmer, 1994) who indicated that organizations outsource some non-core business activities to minimise risks, reduction and control operating costs, specialization on activities of high value and gain access to world-class capabilities.

#### **Outsourcing strategies used by the organisation.**

**Table 4. 7 Outsourcing approaches as applied in organization**

	<b>Mean</b>	<b>Standard deviation</b>
Partnered with a single supplier	4.19	1.10
Use of multiple suppliers for various	3.95	1.10
Formed joint ventures suppliers	3.21	1.05
Most functions in-house	4.49	1.54

Source: Author (2012)

The study sought to know the extent to which the respondent agreed with the given outsourcing approaches as applied in the organization. From the findings, majority of the respondents agreed that most functions in-house and partnered with a single supplier were the outsourcing approaches applied in the organization as indicated by a mean of 4.49 and 4.19. Most of the respondents found joint ventures suppliers and use of multiple suppliers for various services as indicated by a mean of 3.94 and 3.21.

## Benefits achieved through single supplier outsourcing

Table 4. 8 Benefits achieved through single supplier outsourcing

Benefit	Mean	Standard deviation
Cost reduction	4.369	0.405
Focus on core competency	3.942	0.280
Access to specialised vendor	4.52	0.580
Improved services	3.792	0.986
Free resources	3.582	0.994
Provide flexibility	3.669	0.405
Negative performance	2.000	0.280

Source: Author (2012)

The study sought to know the extent to which the respondents agreed that the given benefits have been achieved through single supplier outsourcing. From the findings, majority of the respondents strongly agreed that access to specialised vendor had been achieved through single supplier outsourcing as indicated by a mean of 4.52. Most of the respondents agreed that benefits achieved through single supplier outsourcing were cost reduction, Focus on core competency, Improved services and provide flexibility in the organization as indicated by a mean of 4.369, 3.942, 3.379 and 3.669 respectively. The respondent strongly disagreed that negative performance in the organization was not a benefits that was achieved through single supplier outsourcing as indicated by a mean of 2.0. This implied that outsourcing strategies has influences business performance through reduction of costs, improve flexibility which enhances innovativeness. This concurred with (Linder, 2004) who indicated that transformational outsourcing aims to facilitate

major and rapid organisational change, to enable the launch of new strategies and to reshape organisational boundaries for achieving crucial improvements in under-performing activities, for communicating and executing organisational change or for being able to pioneer new products and innovations to markets rapidly

### Perceived benefits achieved through multiple suppliers outsourcing

**Table 4. 9 Perceived benefits achieved through multiple suppliers outsourcing**

	Mean	Standard deviation
Cost reduction	4.5176	0.28898
Focus on core competency	4.5392	0.11285
Access to specialized vendor	4.1451	0.1635
Improved services	4.5706	0.4050
Free resources	4.3725	0.3558
Provide flexibility	3.9804	.00976
Negative performance	1.231	0.781

Source: Author (2012)

The study sought the extent to which they agreed on benefits that were achieved through multiple suppliers outsourcing. From the findings, most respondents strongly agreed that the KRA has achieved improved services, Focus on core competency and achieve Cost reduction through multiple outsourcing as indicated by a mean of 4.5706, 5.5392 and 4.5176 respectively. The respondent also agreed that the Kenya Revenue authority has achieve free resources, Provide flexibility and access to specialized vendor through multiple outsourcing as indicated by a mean of 4.3725 4.1451 and 3.9804 . It found that multiple outsourcing had not led to negative performance in the organization as indicated

by a mean of 1.231. This implied that multiple outsourcing enable the company to reduce cost , enhance flexibility and improve of firm performance. This concurred with (Campbell, 2005) who indicated that the use of multiple outsourcing enable the company to focus on core competencies, reduced costs, experienced services and access to expertise and allows companies to refocus their resources on their core business.

The respondents indicated that through multiple outsourcing strategies, companies foster innovation and create competition between suppliers, as well as recognised that suppliers will form alliances among themselves for bidding purposes enabling the company to retain retaining strategic control.

**Extent of extent agree on benefits have been achieved through Joint ventures outsourcing**

**Table 4. 10 Extent of extent agree on benefits have been achieved through Joint ventures outsourcing**

<b>Benefit</b>	<b>Mean</b>	<b>Standard deviation</b>
Cost reduction	4.21	0.5643
Focus on core competency	4.19	0.93725
Access to specialized vendor	3.7706	0.5537
Improved services	4.0000	0.0198
Free resources	3.9020	0.1358
Provide flexibility	3.5700	0.517
Negative performance	1.5608	.93725

Source: Author (2012)

The study sought the extent to which the respondents agreed on the benefits that had been achieved through joint venture. From the findings, most respondents agreed that

outsourcing through joint venture reduce cost, enable the company to focus on core competencies, and improve services as indicated by a mean of 4.21, 4.19 and 4.00 respectively. The study also found that joint venture outsourcing enhances free resources, accessibility of specialization vendor and provide flexibility as indicated by a mean of 3.9020, 3.77706 and 3.5700 respective. The respondents strongly disagreed that joint venture sourcing had negative effects on performance in the organization as indicated by a mean of 1.5608. This implied that joint venture outsourcing had influence Productivity in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue etc. The findings concurred with (Teera, 2003) who indicated that the quality of service or taxpayer satisfaction is one of important factor for measurement and may be influenced by processing time for an application, the accuracy of the assessments and so on. This information should come regularly from the results of taxpayer surveys.

**Other benefits and or negative effects have resulted as a result of adopting joint venture outsourcing strategy.**

The respondents were requested to indicate benefits and or negative effects have resulted as a result of adopting joint venture outsourcing strategy. From the findings, the respondents indicated that other benefits of joint venture outsourcing included increase profitability due to reduction on cost. Profitability was arguably the most important criterion for evaluating the performance of a firm (Kremic et al., 2006). The negative of joint venture outsourcing was indicated that the organization may loss confidentiality of the operation and generally loss of trust.

## 4.5 Correlations

### 4.5.1 Correlation of the study variables

		single supplier outsourcing strategy	multiple suppliers outsourcing	joint venture outsourcing strategy
single supplier outsourcing strategy	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	97		
multiple suppliers outsourcing	Pearson Correlation	.865(**)	1	
	Sig. (2-tailed)	.002		
	N	97	97	
joint venture outsourcing strategy	Pearson Correlation	.0614(**)	.490(*)	1
	Sig. (2-tailed)	.001	.07	
	N	97	97	97

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (1-tailed).

The study conducted a Pearson Correlation analysis for all the study variables and noted that there existed a very strong and positive correlation between outsourcing strategies at 95% level of confidence level.

The strength of association between single supplier outsourcing strategy and multiple suppliers outsourcing was strong and positive having scored a correlation coefficient of 0.865 and a 95% precision level. The correlation was statistically significant since it had a P- Value of 0.002 which is less than 0.005 .

There also existed a strong and positive correlation between joint venture outsourcing strategy and single supplier outsourcing in Kenya revenue authority with a correlation coefficient of 0.865 and a significance level of 0.04. This correlation was statistically significant since its P- Value < 0.005 at 0.001.

The strength of association between multiple suppliers outsourcing and joint venture outsourcing strategy was positive having scored a correlation coefficient of 0.490 with a P-Value of 0.07 and a 95% confidence level. The correlation was statistically insignificant since it had a P- Value was greater than 0.005 and therefore statistically significant.

### **Outsourcing strategy the organization needs to adopt to achieve the benefits**

**Table 4. 11 Model Summary for Effect of outsourcing strategies on performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.94(a)	.8836	.7807	4.604	.008	.008	1	1	.00677

Source: Author (2012)

Adjusted R<sup>2</sup> is called the coefficient of determination and tells us how the productivity varied with cost cutting, core competencies, enhanced flexibility and access to information achieved by the organization as results of adopting outsourcing strategies. From Table above the value of R<sup>2</sup> is 0.7807. This implies that, there was a variation of 78.07% in improve performance with the adopting of single supply, multiple and joint outsourcing strategies as it enable the organization to reduce costs of operations, focus on core competencies, enhanced flexibility and access to information at a confidence level of 95% s P<0.05 at 0.00667

**Table 4. 12 Regression Coefficient's results**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.918	1.713		3.132	.0052
	Single supplier Outsourcing	.801	.058	.793	.092	.0000
	Multiple suppliers Outsourcing	.569	.064	.495	.096	.0021
	Joint venture/strategic alliance	.755	.742	.096	.093	.0.0022

Source: Author (2012)

The established regression equation by the study was

$$Y = 5.918 + 0.801 X_1 + 0.569 X_2 + 0.755 X_3 + e$$

From the above regression model, all the outsourcing strategies constant, the performance of the Kenya Revenues Authority would be at , 5.918 with results statistically significant as P> 0.05 at 0.0052. From the findings, unit increase in adoption of single supply

outsourcing would lead to improvement of the organization by 0.801 and the results being statistically significant at  $P < 0.005$  at 0000. The study found that a unit increase in multiple outsourcing strategies would increase performance of the Kenya Revenue authority by a factor of 0.579 while an increase in a unit increase adopting joint venture strategic alliance would improve the performance of the organization by a factor 0.755 with  $P < 0.05$  at 0.00022. This implied that there exist a positive relationship between outsourcing strategies and firm performance. The company achieve perceive benefits due to adoption of different outsourcing strategies by increase in core competencies, enhanced flexibility which improve innovativeness in the organization.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter provides a summary of the main findings of the study, conclusions and recommendations.

#### **5.1 Summary of Findings**

The study established that benefits perceived before the organisation undertakes an outsourcing strategies decision were accessibility of free resources and improved services access to specialised vendor and cost reduction. It revealed that most of the respondent disagreed that focus on core competency was not considered when outsourcing as indicated by a mean of 3.227. The findings concurred with Mullin, (1996) who indicated that companies, which have the highest achieved cost reduction, concentrated on core competencies and enhance flexibilities leading to high innovations in the organizations, more flexible in absorbing changes and innovations, enabling the firm to achieve efficiency as large companies in sub-competitive parts of their value chain.

The study revealed that the decision to outsource part of a KRA functions or activities is prompted by Potential cost savings, access to technological innovations and strategic considerations. It further revealed that outsourcing decisions in a company were prompted by concerned with scale and scope economies and possibly growth expectations through cost reduction, enhance flexibility and focusing on core competences influencing organization performance.

The study found that compliance, counterparty, access and contractual risk were perceived before the organisation undertakes an outsourcing decision. The study further revealed that most of the respondents indicated that strategic and reputational risks were perceived before the organisation undertakes an outsourcing decision .

It was established that most functions in-house and partnered with a single supplier were the outsourcing approaches applied in the organization as indicated by a mean of 4.49 and 4.19 while the organization was found to adopt outsourcing strategies and use of multiple suppliers for various services.

The study also revealed that KRA adopted varying outsourcing strategies to access to specialised vendor have been achieved through single supplier outsourcing as indicated by a mean of 4.52. It further revealed that benefits achieved through single supplier outsourcing were cost reduction, Focus on core competency, improved services and provide flexibility in the organizations .

In addition, KRA has achieved improved services, focus on core competency and achieve cost reduction through multiple .It was noted that Kenya Revenue authority has achieve free resources, provide flexibility and access to specialized vendor through multiple outsourcing with no negative performance in the organization .This implied that multiple outsourcing enable the company to reduce cost , enhance flexibility and improve of firm performance . The study revealed that through multiple outsourcing strategies, companies foster innovation and create competition between suppliers, as well as recognised that

suppliers will form alliances among themselves for bidding purposes enabling the company to retain retaining strategic control.

The study unveiled that outsourcing through joint venture reduce cost, enable the company to focus on core competencies, and improve services ,enhances free resources, accessibility of specialization vendor and provide flexibility . It further found out that joint venture sourcing had negative effects on performance in the organization. This clearly indicated that joint venture outsourcing has influence Productivity in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue improving the quality of service or taxpayer satisfaction is one of important factor for measurement and may be influenced by processing time for an application, the accuracy of the assessments and so on. This information was to regularly come from the results of taxpayer surveys.

From the regression model, all the outsourcing strategies constant, the performance of the Kenya Revenues Authority would be at , 5.918 with results statistically significant as  $P > 0.05$  at 0.0052. From the findings, unit increase in adoption of single supply outsourcing would lead to improvement of the organization by 0.801 and the results being statistically significant at  $P < 0.005$  at 0000. The study found that a unit increase in multiple outsourcing strategy would increase performance of the Kenya Revenue authority by a factor of 0.579 while an increase in a unit increase adopting joint venture strategic alliance would improve the performance of the organization by a factor 0.755 with  $P < 0.05$  at 0.00022 . This implied that there exist a positive relationship between outsourcing strategies and firm performance The company achieve perceive benefits due

to adoption of different outsourcing strategies by increase in core competencies, enhanced flexibility which improve innovativeness in the organization.

## 5.2 Conclusions

The study concluded that benefits perceived before the organisation undertakes an outsourcing decision were accessibility of free resources and improved services access to specialised vendor and cost reduction. It further revealed that most of the respondent disagreed that focus on core competency was not considered when outsourcing as indicated by a mean of 3.227. The findings concurred with Mullin, (1996) who indicated that companies, which have the highest achieved cost reduction, concentrated on core competencies and enhance flexibilities leading to high innovations in the organizations, more flexible in absorbing changes and innovations, enabling the firm to achieve efficiency as large companies in sub-competitive parts of their value chain.

The decision to outsource part of a KRA functions or activities was prompted by Potential cost savings, access to technological innovations and strategic considerations. The finding revealed outsourcing decisions in a company were prompted by concerned with scale and scope economies and possibly growth expectations through cost reduction, enhance flexibility and focusing on core competences influencing organization performance..

The study found that compliance, counterparty, access and contractual risk were perceived before the organisation undertakes an outsourcing decision. It further revealed

that most of the respondents indicated that strategic and reputational risks were perceived before the organisation undertakes an outsourcing decision.

The study established that most functions in-house and partnered with a single supplier were the outsourcing approaches applied in the organization as indicated by a mean of 4.49 and 4.19 while the organization was found to adopt outsourcing strategies and use of multiple suppliers for various services.

According to the study, KRA adopted varying outsourcing strategies to access to specialised vendor through single supplier outsourcing as indicated by a mean of 4.52.

The study further revealed that other benefits achieved through single supplier outsourcing were cost reduction, Focus on core competency, improved services and provide flexibility in the organizations.

It was established that KRA has achieved improved services, focus on core competency and achieve cost reduction through multiple .In addition, Kenya Revenue authority had achieve free resources, provide flexibility and access to specialized vendor through multiple outsourcing with no negative performance in the organization. This implied that multiple outsourcing enabled the company to reduce cost, enhance flexibility and improved organisation performance. The study revealed that through multiple outsourcing strategies, organisations foster innovation and create competition between suppliers, as well as recognised that suppliers will form alliances among themselves for bidding purposes enabling the company to retain retaining strategic control.

From the findings, the study found out that outsourcing through joint venture reduce cost, enable the company to focus on core competencies, and improve services as indicated by

a mean of 4.21, 4.19 and 4.00 respectively. It was established that joint venture outsourcing enhances free resources, accessibility of specialization vendor and provide flexibility as indicated by a mean of 3.9020, 3.77706 and 3.5700 respectively. The respondents strongly disagreed that joint venture sourcing had negative effects on performance in the organization as indicated by a mean of 1.5608. This implied that joint venture outsourcing had influence Productivity in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue etc. The findings concurred with Teera (2003) who indicated that the quality of service or taxpayer satisfaction is one of important factor for measurement and may be influenced by processing time for an application, the accuracy of the assessments and so on. This information should come regularly from the results of taxpayer surveys.

From the findings, other benefits of joint venture outsourcing included increase profitability due to reduction on cost. Profitability is arguably the most important criterion for evaluating the performance of a firm (Kremic et al., 2006). A negative outcome of joint venture outsourcing was identified where by the organization may lose confidentiality of the operation and generally loss of trust.

From the regression model, all the outsourcing strategies constant, the performance of the Kenya Revenues Authority would be at , 5.918 with results statistically significant as  $P > 0.05$  at 0.0052. From the findings, unit increase in adoption of single supply outsourcing would lead to improvement of the organization by 0.801 and results being statistically significant at  $P < 0.005$  at 0000. The study concluded that a unit increase in multiple outsourcing strategy would increase performance of the Kenya Revenue authority by a

factor of 0.579 while an increase in a unit increase adopting joint venture strategic alliance would improve the performance of the organization by a factor 0.755 with  $P < 0.05$  at 0.00022. This implied that there exist a positive relationship between outsourcing strategies and firm performance the company achieve perceive benefits due to adoption of different outsourcing strategies by increase in core competencies, enhanced flexibility which improve innovativeness in the organization.

### **5.3 Recommendations of the Study**

This study therefore recommends that for organization to succeed in its outsourcing it should be given authority and responsibility to achieve their goals, good communication should be ensured, job quality should be a priority, strict rules should be implemented to guide business process outsourcing, an explanation should be given to the entire staff why the corporation has to outsource, benefits of business process outsourcing should also be made clear to all the corporation members, there should be a thorough follow-up (supervision) so that the work is done professionally and in good time, costs should be considered before business process outsourcing to make sure that they do not exceed the benefits of business process outsourcing and also decision making should be left to the organisation.

It also recommends that outsourcing strategies be adopted since it pays off at the firm level through: enhanced accessibility to free resources and improved services, access to specialised vendor and cost reduction, highest cost reduction achieved, core competencies, enhanced flexibilities, high innovations in the organizations, more flexible in absorbing changes, hence is a viable management decision.

The above would additionally lead to scale and scope economies and possibly growth possibilities through cost reduction, enhance flexibility and focusing on core competences influencing organization performance.

The study also highly recommends adoption of multiple outsourcing strategy. These foster innovation and create competition among suppliers, as well as recognised that suppliers will form alliances among themselves for bidding purposes enabling the company to retain strategic control.

The study recommends that management in organization adopts joint venture outsourcing strategy to reduce cost, enable the organization to focus on core competencies, and improve services. The study also found that joint venture outsourcing enhances free resources, accessibility of specialization vendor and provide flexibility. This implied that joint venture outsourcing has influence on performance in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue etc, quality of service or taxpayer satisfaction is one of important factor for measurement and may be influenced by processing time for an application, the accuracy of the assessments and so on. This information should come regularly from the results of taxpayer surveys.

The study recommend that management in an organization should allocate more resources to single suppliers outsourcing as it has the highest impact on performance of the organizations. The study finally concluded that organization should enhance decision to adopt outsource strategies as there existed a positive relationship between outsourcing strategies and performance. From the regression model, single supplier outsourcing had the greatest influence on performance as adoption of single supply outsourcing had led to improvement of the organization by highest factors.

## 5.4 Suggestions for Improvement

The study carried out an analysis of effects of outsourcing strategies on organizational performance focusing on a case of the Kenya Revenue Authority. A further study should be carried out to establish the challenges that organizations faces when implementing outsourcing strategies

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## APPENDICES

### Appendix I: Introductory Letter

Jasiron Anambo  
P.O .Box 14381, 00100  
Nairobi  
Kenya.

Dear Respondent,

#### **REF: REQUEST FOR RESEARCH DATA**

I am a postgraduate student in the School of Business at Kenyatta University. I am conducting a study on the effects of outsourcing strategies on organisation performance.

I have chosen your organisation as my model. Therefore, I kindly request you to provide the necessary information for this study. The information collected is purely for academic purpose and thus will be treated with utmost confidence.

A final copy of the report will be availed to you at your request.

Yours faithfully,

Jasiron Anambo

## Appendix II: Questionnaire

### Section 1: general information

1. State your gender

Male

Female

2. State your age

Under 25

26-35

46-55

Over 55

3. What is your level of education?

Secondary school

College

Degree

Postgraduate

Others

4a. Which department do you work in at the organisation?

Board/Admin services	<input type="checkbox"/>	Information technology	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>
Finance	<input type="checkbox"/>	Audit and Risk	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>
Human Resource	<input type="checkbox"/>	Investigation and Enforcement	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>
Treasury	<input type="checkbox"/>	Other	<input type="checkbox"/>

4b. What is the length of service at the Kenya Revenue Authority?

Five years and above

Four years

Three years

Two years

Less than one year

**Section 2: Types of services and/or goods that are outsourced in the organisation**

5a) To what extent do you agree that the following services and goods are being outsourced by the organisation. Tick appropriately in the spaces provided.

Service	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Security Services					
Printing Services					
Internal audit					
Human resources					
Support Services					
Information technology					
Debt collection					
Training					

5 b) What other services or goods are outsourced by the organisation?

.....

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**Section 4: Outsourcing strategies used by the organisation.**

8) To what extent do you agree with the following outsourcing approaches as applied in your organization?

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
partnered with a single supplier					
Use of multiple suppliers for various services					
Formed joint ventures with some of the suppliers					
Most functions in-house					

9a) To What extent do you agree the following benefits have been achieved through single supplier outsourcing?

<b>Benefit</b>	<b>Very large extent</b>	<b>Large extent</b>	<b>Neutral</b>	<b>Low extent</b>	<b>Very low extent</b>
Cost reduction					
Focus on core competency					
Access to specialised vendor					
Improved services					
Free resources					
Provide flexibility					
Negative performance					

9b) In your own opinion, what other benefits and or negative effects have resulted as a result of adopting single supplier outsourcing strategy.

.....

.....

.....

10a) To What extent do you agree the following benefits have been achieved through multiple suppliers outsourcing?

<b>Benefit</b>	<b>Very large extent</b>	<b>Large extent</b>	<b>Neutral</b>	<b>Low extent</b>	<b>Very low extent</b>
Cost reduction					
Focus on core competency					
Access to specialised vendor					
Improved services					
Free resources					
Provide flexibility					
Negative performance					

10b) In your own opinion, what other benefits and or negative effects have resulted as a result of adopting multiple supplier outsourcing strategy

.....

.....

11a) To What extent do you agree the following benefits have been achieved through Joint ventures outsourcing?

Benefit	Very large extent	Large extent	Neutral	Low extent	Very low extent
Cost reduction					
Focus on core competency					
Access to specialised vendor					
Improved services					
Free resources					
Provide flexibility					
Negative performance					

11b) In your own opinion, what other benefits and or negative effects have resulted as a result of adopting joint venture outsourcing strategy.

.....

.....

12) What other outsourcing strategy do you think the organization needs to adopt to achieve the benefits mentioned in 10 above?

.....

.....

**End of Questionnaire**

**Thank you for your Input and Cooperation**

### Appendix III: Budget

No.	ITEM	COST (Kshs)
1	Transport	5,000
2	Printing, photocopy and binding charges	8,000
3	Library and internet expenses	8,000
4	Research assistant @10,000	10,000
4	Sub Total	31,000
5	Contingencies (10% of sub-Total)	3,100
	<b>Total cost</b>	<b>33,100</b>

## Appendix IV: Time Frame

	Mar 2012	April 2012	June 2012	Aug 2012	Oct 2012	Oct 2012	Nov 2012
Coming up with a research topic							
Writing chapter one							
Writing chapter two and three							
Finalizing on the research proposal							
Pilot survey							
Data Collection							
Data Analysis and Report Writing							
Project Presentation							