Factors Influencing Outsourcing at Kenya Union of Savings and Credit Cooperatives

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Abstract

The Kenya Union of Savings and Credit Cooperatives is the Union that caters for SACCO issues in Kenya. To effectively carry out this it has two fully fledged departments, Consultancy and Compliance and Education and Training. The organization is currently implementing year 2009-2013 Strategic Plan which gives a lot of emphasis on outsourcing, this has caused the organization to outsource a number of its operations for example lawn maintenance, transport, logistics, catering, security, IT, site maintenance, internal post and mail services, travel, vehicles maintenance and freight, cleaning services, legal services, debt collection, human resource, and training and consultancy. An evaluation of the relevance and quality of training offered by external consultants was found to be defective and lacked relevance, the consultants hired lacked SACCO knowledge, their consultancy fees was far too high for most SACCOs. The objective of this study was to find out which factors influenced outsourcing by critically looking at all the variables and bringing out the key factors by analyzing the variables that may have influenced this decision considering the fact that some of the outsourced services and products lie at the very core of KUSCCOs mandate, these research looked at the facts necessitating this practice and compared them with in sourcing. The sample size in this study was 42 members of staff out of the target population of 413 employees of the larger population of the KUSCCO family. Stratified random sampling technique was used it involved dividing target population into subgroups and selecting a respondent from each subgroup. This enabled the researcher to select respondents who provided reliable information on outsourcing practices, the researcher carried out several research activities including reviewing the current literature in the fields of outsourcing practices to achieve a thorough understanding of the issues involved and identified crucial factors affecting the outsourcing decisions.

The researcher developed a questionnaire survey to assess each crucial factor influencing the need to outsource services. The researcher then carried out pilot testing of the developed questionnaire survey through conducting face to face interviews with the purchasing department staff hence was able to obtain responses of each of the developed questionnaire surveys. The data collected through the use of the questionnaires was then coded and analyzed with the help of computer software (SPSS). Data analysis was first analyzed according to descriptive information following the research questions.

The researcher therefore made the following findings:-

1. *That Strategic plan strongly influenced outsourcing practice at Kenya Union of Savings and Credit Cooperatives (KUSCCO).*

2. *Outsourcing practice contributed to deterioration in provision of services and goods.*
3. *The cost of production went up as a result of deterioration in service provision by third parties*

Based on this research finding it is recommended:-

1. *That KUSCCO puts in place clear policies relating to outsourcing which should be strictly adhered to and standardized organization wise and indicate how non-core procurement activities should be outsourced.*
2. *That KUSCCO needs to outsource only to service providers who offer superior service to avoid deterioration in service provision and consider in-sourcing some of the activities that had their costs shoot up due to this practice.*

1. Introduction

1.1 Background to the Study.

The Kenya Union of Savings and Credit Cooperatives Limited (KUSCCO), was set up in 1973 as an umbrella organization for all Savings and Credit Cooperative Societies in Kenya. KUSCCO operates in an environment dictated to by social, economic, legal and political factors, which directly and indirectly impact on its operations, such an environment creates demands and challenges on the part of the Union which must be addressed. These challenges include: low capital base, inadequate ICT, inability to fully influence government policy in favor of SACCOs, poor savings culture among Kenyans, high cost of funds, how to rally the board and management to support the vision of the organization, how to retain qualified and experienced staff, inability to recruit newly registered SACCOs to its membership, limited education and information on co-operative matters, limited financial resources for capacity building, compliance with regulatory frameworks, competition, forging strategic linkages/partnerships, political interference, legislation, withdrawal from patronage of its products and services by its affiliates, lack of external resources, lack of clear succession planning, unstable money market and high inflation rates, (The Sacco Star Magazine,2012).

KUSCCO has introduced and is implementing a Strategic Plan for the years 2009-2013 to better respond to the changing internal and external environment. In its strategic plan outsourcing is one of the strategies to be applied to help it stay competitive. Some of the activities that it has outsourced are Catering, Security, IT, Site Maintenance, Internal Post and Mail Services, Travel, Vehicles Maintenance and Freight, Cleaning Services, Legal Services, Debt Collection, Education and Training and Compliance and Consultancy, some of these services clearly indicates that there is over reliance on outsourcing when it is not viable, While carrying out an evaluation of the relevance and quality of training offered by external consultants and comparing it with the internal staff it was found to be lacking in relevance as consultants hired lacked SACCO knowledge, their consultancy fees was also found to be prohibitive to small sized SACCOs especially the rural based SACCOs, (The Sacco Star Magazine, 2012).

Globally, many organizations have opted to outsource their non-core activities so that they use the outside resources to perform activities traditionally handled by internal staff and resources, this they do to avoid huge capital investments, for example Dysons whose core business is making of vacuum cleaners has outsourced some of its operations to Asian and North American countries where the labor charges are fairly low when compared to those of United States, (The outsourcing institute, 2009).

Outsourcing is the retention of responsibility for the delivery of services by an organization, but devolution of the day today performance of those services to an external organization, under a contract with agreed standards, costs and conditions, this requires that an organization is in a position to handle the relationship as well as service level agreements without compromising on the quality of the service. (Benmaridja, M, Benmaridja, A 1996).

Kenya Union of Savings and credit Co-operatives favors outsourcing as compared to insourcing, faced with high and constantly changing consumer demand, ever changing technological advancement, unqualified trainers/consultants and global economic recession, organizations can achieve operational cost savings and efficiency by outsourcing some of its non-core functions such as security services, marketing, and logistics operations. In addition, outsourcing such functions would enable it focus on its core mandate, focus on advancing its technological operations, expanding its market niche and maximizing its profit base, (Donald, 1997).

According to Prahalad and Hamel (1996) business development would depend on a Corporations ability to identify, cultivate and to use its core competencies. Many organizations large and small in both manufacturing and service operations have invested and continue to invest great efforts in attempting to do just this, to effectively carry out this research, the researcher used Kenya Union of Savings and Credit Cooperatives staff involved in procurement as the target population, population is defined as the entire group of people that is of interest to the researcher, target population is a whole set of individuals who meet the sampling criteria, (Jason, 2000).

The target population in this study was 413 employees of The Kenya Union of Savings and Credit Cooperatives out of the larger population of KUSCCO family, the study targeted each department that is involved in the procurement. The study selected four categories that resulted in dividing the target population into four categories, these categories were classified as Procurement, Supply Chain& Logistics, Warehousing and Finance.

1.1.1 Profile of Kenya Union of Savings and Credit Co-operatives (KUSCCO)

The Kenya Union of Savings and Credit Cooperatives, was established in 1973 as an umbrella organization for all Savings and Credit Cooperative Societies in Kenya. The Union has since remained the principal national organization recognized as an institution responsible for representing and speaking on behalf of the SACCOs. This National Association was formed and continues to operate on the basis of a system of membership. Currently, there are about 3519 SACCO Societies in Kenya out of which more than three quarters of these are registered members of KUSCCO. Being national in scope, the Union has established 5 regional and 9 sub-regional offices throughout the country. KUSCCO has affiliates in all the provinces in Kenya. The operations of each province is coordinated through a representative structure including elected delegates from participating members, with a committee responsible for managing the affairs of the province. The Board of directors of the Union includes representation from each of the five provinces. KUSCCO is affiliated to Cooperative Alliance of Kenya (CAK), The World Council of Credit Unions (WOCCU) and the International Reifessen Union, ((The Sacco Star Magazine, 2012).).

The aims and objectives of the organization include: i) To represent, promote and advance all SACCO interests, ii) To promote education and interests of SACCO members, iii) To seek support from, and work cooperatively with organizations, agencies, groups and individuals having aims and objectives consistent with those of the Union, iv) To partner with affiliates and national associations to deliver services to members, v) To provide a forum to improve communication and cooperation among all sectors of the cooperative movement in order to better address the issues, concerns and problems that is pertinent to the entire cooperative network; vi) To liaise with and advise the government of Kenya on issues relating to the Savings and credit cooperatives, vii) To initiate and coordinate savings and credit-related programs, viii) To affiliate with and represent Kenya in international bodies governing the various disciplines of SACCO Activities, ix) To advise external organizations and the Government on SACCO matters, and, x) To raise, use, invest and reinvest funds to support the above aims and objectives.

1.2. Statement of the Problem.

Kenya Union of Savings and Credit Cooperatives in an effort to implement its Strategic Plan has embraced outsourcing, it outsources many of its activities including core activities such as education and training and consultancy and compliance where it has fully fledged departments that are tasked with carrying out this mandate.

Some of the services outsourced clearly indicate that there is over reliance on outsourcing when it is not viable. An evaluation of the relevance and quality of training offered by external consultants was found to be defective, lacked relevance and costly mostly to small sized SACCOs and especially the rural based SACCOs, (The Sacco Star Magazine, 2012).

KUSCCO has not been able to properly manage the third party service providers, there is a compromise on the quality of service provided by them, this has greatly increased the cost of doing business due to extra costs and no benefits, it has outsourced services and activities that they should in-source instead, outsourcing was a strategic measure to make the Union to have competitive advantage yet this has not been the case, (Buke, 2011).

Outsourcing is an important aspect of the overall strategy of any organization, globally many multinationals have outsourced certain non-core activities like lawn maintenance, transport and logistics, catering, security, IT, site maintenance, internal post and mail services, travel, vehicles maintenance and freight, cleaning services, legal services, debt collection and human resource these basically are not their core activities and so allows them time to concentrate on doing things that are relevant and are of value to them, these differs from the KUSCCO case where it has outsourced its core activities.

1.3 Research Objectives

1.3.1 General Objective

The main objective of this study was to identify the factors influencing outsourcing at the Kenya Union of Savings and Credit Cooperatives (KUSCCO)

1.3.2 Specific Objectives

1) To determine the extent to which Strategic Plan influenced outsourcing at The Kenya Union of Savings and Credit Cooperatives.

2) To establish the relationship between outsourcing and quality improvement at The Kenya Union of Savings and Credit Cooperatives.

3) To determine the effect of production cost on outsourcing at The Kenya Union of Savings and Credit Cooperatives.

1.4 Research Questions

1) Does strategic plan influence outsourcing at Kenya Union of Savings and Credit Cooperatives?

2) Does quality improvement influence outsourcing at Kenya Union of Savings and Credit Cooperatives.?

3) Does production cost affect outsourcing at Kenya Union of Savings and Credit Cooperatives.?

1.5 Justification

The study findings are of significance to the teams and entire management as they have answers to the factors influencing outsourcing in the organization which in essence was the reason for carrying out this research.

The study provides the background information to other researchers and scholars who may want to carry out further research in this area. The study facilitates individual researchers to identify gaps in the current research and carry out research in those areas, the work will also be used by students who will want to study similar area and to come up with comprehensive conclusion and reasoning in regard to outsourcing. The results of this study are of use to various stakeholders like Government, Institutions of higher learning, and organizations in similar industry that may use these findings to benchmark or as basis.

1.6 Scope of the Study

This was a study of Kenya Union of Savings and Credit Cooperatives. (KUSCCO) Limited located at KUSCCO Centre in Nairobi's Upper-hill Area, Kilimanjaro Avenue, Off Mara Road directly opposite Teachers Service Commission offices it was done within their Procurement and Supply Chain Division. The study interviewed respondents from senior managers to junior staff which resulted in dividing them into four categories. The main objective of the study was to identify the factors influencing outsourcing this made the study to focus on key identified areas that were addressed under each specific objective.

The researcher undertook activities within the scope of the issues that were addressed by the research objectives to ensure that all the study findings contribute towards the achievement of the main objective of the study.

1.7 Limitations of the Study

Some employees did not fully understand the factors influencing outsourcing at Kenya Union of Savings and Credit Cooperatives due to lack of exposure to the field of study or they being recently employed and therefore failed to give the required information on factors influencing outsourcing. There were some respondents who were not providing full information for fear of being reprimanded by the senior leadership, more so on areas where their seniors failed to take corrective measures and the organization lost revenues, these was however overcame by assuring them of the confidentiality by the researcher, the nature of the organization (financial sector) makes it sensitive and therefore there was reluctance in releasing information freely.

2. Literature Review

2.1 Introduction.

This chapter introduced the review of the research study, it focused on the past studies that had earlier been undertaken on the factors influencing outsourcing, the information covered in the literature review was obtained inform of past reference materials like magazines, newspapers articles and other published materials, this contributed towards broadening the scope of the research study and drawing comparison on what factors were previously investigated. The empirical and theoretical review was explored, critical review explained and the research gaps discussed and work summarized.

2.2 Theoretical Review

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier, (Kumpe, 1988).

Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, "Outsourcing is nothing less than the wholesale restructuring the corporation around our core competencies and outside relationships." The traditional outsourcing emphasis on tactical benefits like cost reduction, have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills, (Bailey 1978).

Organizations are increasingly being challenged to overhaul outdated systems, overcome staff shortages, and to solve recruitment and compliance challenges. Techniques that have been traditionally used to surmount some of these challenges are hardly proving to be sufficient, and most firms are turning to outsourcing. "In simple form, the outsourcing model leverages a third party expert to perform particular processes, usually administrative in nature on behalf of an organization "Often these processes are farmed out because they require labor resources, technology, or expertise that is not available (nor affordable) within the contracting organization, (Christopher, 2002).

Some of the organizational activities that are typically outsourced include payroll processing, benefits administration, and retirement plan management. Through outsourcing, organizations are able to gain access to new technology, new processes, and best practices without straining their budgets, (Lysons, 1996).

Outsourcing is a type of make or buys decision that has gained prominence in the 1990s. It is one of the fastest growing concepts in the business world, and refers to a contractual relationship between an external vendor and an enterprise in which the vendor assumes responsibility for one or more business functions of an organization. As a concept, it is applicable to contracting out of existing activities and not to situations where new activities and capabilities are concerned. Therefore an organization evaluates its competencies in relation to its core activities. If it finds itself lacking in competencies to undertake an activity, such an activity would be awarded to a third party vendor to execute it, (Donald, 1997).

Even as the uptake of outsourcing by organizations has been fairly rapid, some organizations have been slow to embrace outsourcing. Findings of a recent International Management Association for Human Resources (IMA-HR) research on both public and private sectors, carried out by Pricewaterhousecoopers International shows that less than 40% of private organizations have currently leveraged outsourcing as part of their service delivery, even though close to 94% of all respondents whose organizations have outsourced part of their operations registering satisfaction with the process, (Lysons 1996).

The study which surveyed 100 respondents in private organizations also found that notwithstanding its slow uptake in private organizations, the private-sector organizations are becoming more receptive to the concept and close to 60% of them reported of future plans to outsource part of their operations. The most common reasons given for outsourcing were the desire to save costs and improve service delivery especially given that most of the private organizations are faced with stiff competition; continuous change in technology; and unanticipated consumer demand. In addition to the direct benefits, it was found that outsourcing delivers indirect benefits to organizations such as allowing organizations "to move away from transactional activities to deal with long-term planning, performance monitoring, innovation, and improvement, (Donald 1997).

The study concludes that within the context of public organizations, outsourcing is an effective yet underutilized transformation tool, (Bailey 1978).

A study carried out on outsourcing in public utilities in the US established that various reasons motivate the uptake of outsourcing. These reasons are: the desire to curb rising operational costs, the emergence and maturation of large outsourcing providers, a desire to focus on strategic asset management, lower valuations in the investor arena, and globalization and cost-cutting options, (Christopher 2002).

According to the study, most organizations that seek to outsource part of their operations or processes will typically reflect certain characteristics which are symptomatic of sub-optimal performance such as: loss of internal expertise through attrition or downsizing, restricted access to the capital markets, inconsistent service quality delivery, the desire to change their customer culture, low customer ratings, high cost of maintaining the current operation or process, or inability to run the process or operation, (Bailey 1978).

To evaluate the right party to outsource its operations, it is suggested that organizations should evaluate the provider's financial position, its capability to carry out the outsourced activity, potential risks inherent in the move to outsource, and risk mitigation or management measures, organizations are faced with tight budgets, and the desire to do more with less has never been greater for such organizations. He identifies outsourcing as one of the techniques that private organizations can use to cut costs, (Greenwood, 1997).

2.2.1 Conceptual Framework

The conceptual framework presupposes those factors that influence KUSCCO to outsource include Strategic plan and the benefits that accrue from outsourcing. The frame-work also pre-supposes that there will be improvement on quality, say in case it is a technical area then a person with technical knowhow will handle, Kenya Union of Savings and Credit Cooperatives may seek to outsource its services due to change in technology, higher innovation can then feed back into further outsourcing because a technology gap remains. A simple system could work with Foreign Service inputs exerting both direct and indirect effect on innovation. Outsourcing can be thought to lead to cost savings, such savings are not guaranteed, KUSCCO should carry out cost analysis. This would enable the organization to be able to adopt the "make or buy" decision or policy defining the service, calculating the in-house cost that can be avoided by outsourcing the service, calculating the total outsourcing costs, and comparing the cost savings accruing from outsourcing against the costs incurred from producing in-house, (Buke, 2011).

Most organizations outsource for quality improvement, outsourcings of quality decisions by organizations have strategic and operational implications. Strategically, understanding the market and competition is necessary to make effective outsourcing decisions. There is need to recognize the concern and model in the situation where an organization with quality and cost pressures and operational strategies may arrive at different outsourcing solutions based on competitor quality strategy traits, Bailey,1978).

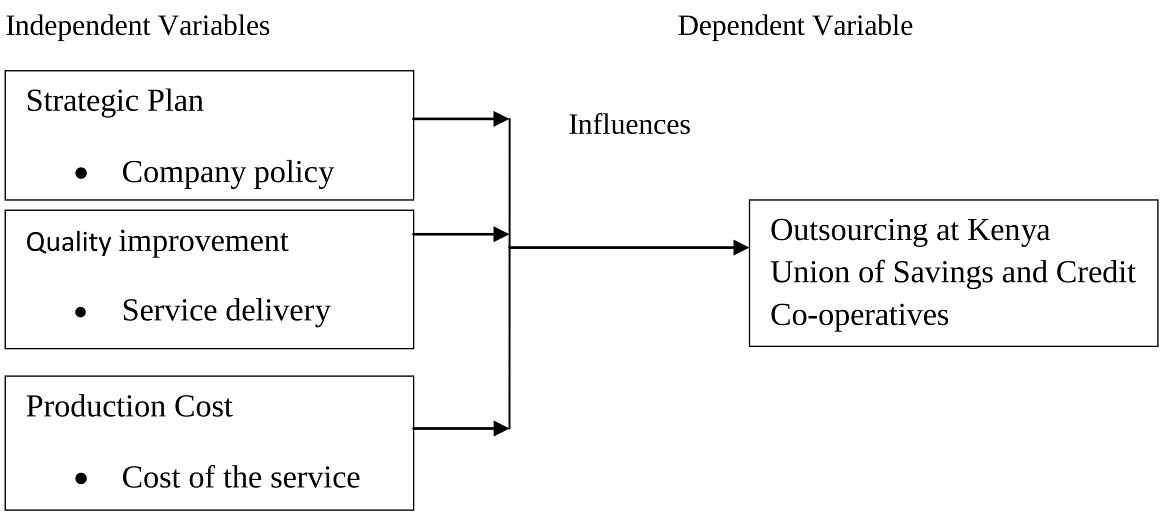

Fig 2.1 Conceptual Framework

2.2.1 Strategic Plan

Outsourcing involves transferring responsibility for carrying out an activity (previously carried on internally) to an outsourcer for an agreed charge. The outsourcer provides services to the customer based on a mutually agreed service level, normally defined in a formal contract. Despite the potential benefits, information security incidents such as inappropriate access to or disclosure of sensitive information, loss of intellectual property protection or the inability of the outsourcer to live up to agreed service levels, would reduce the benefits and could jeopardize the security posture of the organization, (Bailey,1978).

Purchasing is a complicated task that largely determines what a company is in reality, it affects or influences every aspect of organization. Cap Gemini has distinguished common features of organizations whose ability to effectively manage their purchasing organization is limited and thus experience difficulty acquiring products and services with the quality they need at a favorable price, (Christopher, 2002).

The average Purchasing Department spends an inordinate amount of time on purchasing activities that only affect a limited part of the total purchasing volume. This frequently leads to a lack of focus on the purchasing volume that really matters. This and other factors create an important challenge in realizing sustainable purchasing organization. An organization that has partially outsourced its purchasing activities has various characteristics, (Greenwood, 1997).

Outsourcing is one of the most frequently used words within our business vocabulary. Currently more than 40% of the fortune top 1000 companies outsource all or part of their functions or processes. In the past years companies outsourced their wage and salary administration, their financial processes and their Information Technology functions. But outsourcing the purchasing function will soon far surpass the outsourcing of all these other business processes in terms of both popularity and the value achieved by this. Capgemini's experience indicates that the effects of operational cost reduction can be approximately 25% (P2P), an additional 8% savings can be achieved using strategic purchasing programs (S2C).

Because of the larger volume of S2C, the possible savings in absolute numbers is even greater, (Christopher, 2002).

Organizations eventually have to outsource some type of IT services. Having seen both sides of the IT outsourcing issue, every organization needs a minimum set of security policies to help reduce its inherent risks, it's not about whether or not one can count on and trust people, it's about doing the right thing for the business to make sure the proper protection mechanisms are in place to reduce risk, (Lysons, 1996).

Suitable information security awareness, training and education shall be provided to all employees and third parties working on the contract, clarifying their responsibilities relating to organization information security policies, standards, procedures and guidelines (*e.g.* privacy policy, acceptable use policy, procedure for reporting information security incidents *etc*.) and all relevant obligations defined in the contract.Information Security, in conjunction with functions such as Legal, Compliance and Risk Management, is responsible for assisting outsourced business process owners to analyze the associated risks and develop appropriate process, technical, physical and legal controls, (Christopher, 2002).

2.2.2 Quality Improvement

It is widely accepted that quality improvement through innovation is a primary source of productivity growth. In order to identify the full range of changes that firms undertake to improve performance and their success in improving economic outcomes, a framework broader than technological process innovation is needed, marketing and organizational innovations gives a more complete framework that is better able to capture the changes that affect a firm’s performance and contribute to the accumulation of knowledge, (Christopher, 2002).

Organizational innovations can have an important effect on productivity on their own, organizational innovations can increase the quality and efficiency of work and improve the information sharing and the ability of the firm to use new technologies, as such increasing the productivity of investment in knowledge. Broadly speaking, an organizational innovation is defined as the adoption of a new idea or behavior by an organization. Organizational innovations refer to the implementation of new organizational methods. These can be changes in business practices, in workplace organization or in the firm’s external relations, (Peter, 2000).

One recent finding where there is agreement is that foreign outsourcing generates efficiency gains for outsourcing firms, but efficiency is not enough if it masks a “hollowing out” of production, whereby foreign supplying firms absorb ever higher skilled employees and domestic outsourcing firms outsource tasks heretofore carried out by high-skilled employees. This is where technology plays a role. If it can be shown that technology is upgraded with foreign outsourcing, a more solid argument can be made for foreign outsourcing from a welfare perspective. If it can further be shown that technology can be continuously upgraded with foreign outsourcing, we can make an even better case for foreign outsourcing, (Peter, 2000).

In a globalized world, firms that outsource inputs have a greater opportunity to reconfigure their innovation, Innovation is financed from a firm’s profits. This is a more complex question that remains to be answered satisfactorily. Theory has already said that this can work a formulated model that shows how factor-cost-motivated international outsourcing can induce efficiency changes in a plant that feed through to higher innovation, (Christopher, 2002).

The theoretical idea behind the innovation model is that outsourcing affects profits, which in turn enhances a firm's ability to invest in innovation. In order to investigate whether our data is in line with this explanation we include a firm's profits as a controlling variable. It is likely that Foreign Service inputs have an effect on innovation even when we control for profitability, for a number of reasons. The first is the issue of timing. The impact may be very long-term, longer than the three-year window in data. Secondly, economic profitability is notoriously difficult to capture accurately, (Christopher, 2002).

Outsourcing may have a more direct effect on innovation if it compels plants to restructure their work processes, the result of which restructuring brings about profit improvements. Estimated innovation model also contains a set of other influences expected to drive innovation, such as domestic service inputs (not expected to have as high an impact as international service procurement due to more limited scope for factor cost savings by firms) and characteristics of the firm such as industry sector, (Peter, 2000).

Outsourcing may not be very representative, encompassing only services outsourcing. A firm outsources a broad range of intermediates, most of which are tangible. Therefore, we expand this description of outsourcing to include material inputs, both domestic and foreign. Domestic services also contribute to innovation, but less so. This is in line with our earlier conjecture that foreign services offer greater scope for factor cost reductions than their domestic counterparts. In percentage terms, this corresponds to a 2.5% increase in innovation for each 1% increase in the value of foreign services outsourced. Interestingly, the effect on innovation is not all mediated through the "innovation-profit" channel. Part of the effect continues to arise directly as a result of foreign services purchased, (Peter, 2000).

2.2.3 Production Cost

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets, Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier, (Quinn 2000).

We develop a three-stage game-theoretic oligopolistic model based on differentiated product strategy and integrating quality expectations of the market. The model is solved for equilibrium points on price, outsourcing activity, and investments in quality. The results show that these decision factors are sensitive to market expectations and quality performance of competitors. Performance measures based on profitability and market share results are presented within this model, observations and insights are also presented, (Peter, 2000).

Quality of service is measured through a service level agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price, (Bailey, 1978).

There are a number of stakeholders who are affected and there is no single view of quality. The Chief Executive Officer may view the lower quality acceptable to meet the business needs at the right price. The retained management team may view quality as slipping compared to what they previously achieved. The end consumer of the service may also receive a change in service that is within agreed SLAs but is still perceived as inadequate. The supplier may view quality in purely meeting the defined SLAs regardless of perception or ability to do better. Quality in terms of end-user-experience is best measured through customer satisfaction questionnaires which are professionally designed to capture an unbiased view of quality. Surveys can be one of research. This allows quality to be tracked over time and also for corrective action to be identified and taken, (Peter, 2000).

Quality Risk is the propensity for a product or service to be defective, due to operations-related issues. Quality risk in outsourcing is driven by a list of factors. One such factor is opportunism by suppliers due to misaligned incentives between buyer and supplier, information asymmetry, high asset specificity, or high supplier switching costs. Other factors contributing to quality risk in outsourcing are poor buyer-supplier communication, lack of supplier capabilities/resources/capacity, or buyer-supplier contract enforceability. Two main concepts must be considered when considering observability as it related to quality risks in outsourcing: the concepts of testability and criticality, (Bailey 1978).

Quality fade is the deliberate and secretive reduction in the quality of labor in order to widen profit margins. The downward changes in human capital are subtle but progressive, and usually unnoticeable by the out sourcer/customer. The initial interview meets requirements, however, with subsequent support, more and more of the support team is replaced with novice or less experienced workers. Some IT shops will continue to reduce the quality of human capital, under the pressure of drying up labor supply and upward trend of salary, pushing the quality limits, (Peter, 2000).

Effective communication among cross-functional areas reduces the negative effects of outsourcing projects on the morale and performance of the remaining employees. Management must step in and rebuild trust among the workers, and jobs may need to be reevaluated and expanded or changed to fit the new organization. This can be achieved through support and involvement of top management and by providing incentives to employees and vendors who meet and exceed the contracted performance expectations, (Jones 1997, Foster,1999).

Another factor is to acquire the right people, with the right skills involved in all phases of outsourcing activities. Early in the evaluation, persons must be identified as to who will take leadership responsibility, perform the analysis, and make the decisions. Adequate supporting infrastructures, commitment by top management, and development of objective performance criteria were among the factors contributed to successful outsourcing, (Christopher, 2002).

Properly defined performance criteria for an outsourcing engagement are objective, quantifiable, and collectible at a reasonable cost, and should be metrics which can be benchmarked against performance of other organizations and provider. Other factors identified among the top priorities in successful firms include adequate performance feedback, emphasis on both short and long-term benefits, anticipation of change for both good and bad times and accommodation of cycles of demand that require an adjustment in services, (Peter, 2000).

3. Methodology

This chapter discussed how the researcher carried out the research work, the different activities that were involved, it discussed the research design, target population, sample and sampling technique, data collection instruments and procedure and data processing and analysis.

3.1 Research Design

According to Mugenda and Mugenda (2002), research design is the overall plan for conducting the study in order to answer the research questions, the research design indicates the steps followed in conducting the research. The study used a descriptive research design, It was appropriate in this type of research because the objective was to provide systematic description that is as factual and as accurate as possible.

3.2 Target Population

Target population was the entire group of people that was of interest to the researcher, target population is a whole set of individuals who meet the sampling criteria. The target population in this study was 413 employees, the study targeted each department that was involved in the procurement. The study selected four categories that resulted in dividing the target population into four categories, these categories were classified as Procurement, Logistics, Warehousing and Finance.

3.3 Sample and Sampling Technique

3.3.1 Sample Size

According to Mugenda and Mugenda (2003), sampling design refers to a research design that indicates how cases are to be selected for observation or as respondents. In descriptive study a sample size of ten percent (10%) is representative enough to generalize characteristics being observed.

Table 3.1 Sample size

Category	**Target population**	**Sample size (10%)**
Procurement Staff	70	7
Logistics Staff	198	20
Warehousing Staff	96	10
Finance Staff	49	5
Total	**413**	**42**

3.4 Sampling Technique

Sampling technique is the process of selecting respondents, who are identified as representative of the target population. Stratified random sampling technique was used since it involved dividing target population into subgroups and selecting a respondent from each subgroup. This enabled the researcher to select respondents who provided reliable information on organization outsourcing

3.5 Data Collection Instruments

According to Polit & Hungler (1999). Data collection is the gathering of pieces of information that are necessary for research process. Structured approach to collecting data was utilized. Questionnaires were used to obtain data relevant to the study. Questionnaires were issued to all the respondents in the four categories of the target population. The respondents were given enough time to complete the Questionnaires.

3.6 Data Collection Procedure

Questionnaires were used to provide the actual information that was obtained for the purpose of the research study, this type of data was collected from the members of staff who participated in the exercise and then analyzed to get only the important information for proper judgment and analysis. Questionnaires were the major source of primary data and the research findings were determined on how the respondents answered the questionnaires that is, the data that was collected for other purpose but was still important in this type of research study that involved past data that had been previously collected and tabulated through use of graphs, charts and reports. This type of data was collected from reference materials which have key information that was helpful to this research study. Collection of secondary data was obtained through desk research, which was either from internal or external sources the external sources included publications, marketing research agency, press, newspapers, libraries, and various research related organizations.

3.7 Data Processing and Analysis

The data collected through the use of the questionnaires was coded and analyzed with the help of a computer. Data analysis was first analyzed according to descriptive information following the research questions, Calculating the percentages and mean scores. Descriptive statistical analysis was employed where quantitative data analysis was employed then tables and figures used to present the information.

5. Summary of Findings, Conclusions and Recommendations

5.1 Introduction

The chapter discussed the summary of findings, conclusions and recommendations of the research study this entailed a detailed explanation of factors influencing outsourcing at Kenya Union of Savings and Credit Cooperatives. The answers to the research questions were discussed from the study findings and as an effort to provide a solution to the factors influencing outsourcing, recommendations of the study were discussed and suggestions for further studies were made.

The data obtained from the questionnaires was critically examined to detect errors and correct the questions that were not properly answered, all the mistakes were collected and poorly answered questionnaires were exempted from analysis process this increased accuracy, consistence and reliability of the gathered facts. Data completeness and uniformity was maintained and this facilitated application of other data analysis techniques like coding, data organization, data classification and tabulation.

5.2 Summary of Findings

There are various factors influencing outsourcing, effective customer service is mostly affected by various factors, the key factors which were investigated by the research study, these factors were addressed by the study objectives where data collected under each variable stated were analyzed and presented through the use of figures and tables to clearly depict how each category in the target population was being affected by the investigated factors.

5.2.1 Strategic Plan

Majority of respondents indicated that strategic plan had influence on outsourcing at KUSCCO. Most respondents indicated that strategic plan strongly influenced the need to outsource certain activities at Kenya Union of Savings and Credit Cooperatives, the study found out that strategic plan strongly influenced the need to outsource certain activities at KUSCCO.

5.2.2 Quality Improvement

Majority of respondents indicated the effect of quality on outsourcing in procurement of goods and services, the influence of outsourcing on quality improvement was rated low which had negative effect, quality improvement was not realized when the organization decided to outsource some of its activities. To determine the relationship between outsourcing and quality improvement majority of respondents who were 67% indicated that there was relationship whereas 33% indicated non-existent of such relationship this showed that KUSCCO outsourced its services with the notion that it would improve service quality yet this turned out not to be the case.

5.2.3 Production Cost

Majority of respondents indicated that production cost had a negative influence on the need to outsource this indicates that majority felt that production cost influenced the need to outsource but had negative effect overall.

The study found out that production cost went up when outsourcing of procurement of services was practiced, majority of respondents' rated production cost to have a negative effect, this shows that though outsourcing should be done in a way to reduce costs in KUSCCO's case this was not the case.

5.3 Answers to the Research Questions

5.3.1 Did Strategic Plan influence outsourcing at Kenya Union of Savings and Credit Cooperatives?

Majority of respondents who were 83% stated that Strategic Plan indeed influenced the organization to outsource. 17% felt outsourcing was done without consideration to Strategic Plan.

5.3.2 Did quality improvement influence outsourcing at Kenya Union of Savings and Credit Cooperatives?

Most respondents who were 67% stated that there was no relationship between quality improvement and outsourcing, 33% indicated that quality improvement had effect on outsourcing and to check on how strong or weak this was a factor, 10% strongly agreed, 23% agreed, 60 %did not agree and 7% were not sure whether this was a factor or not..

5.3.3 Did production cost affect outsourcing at Kenya Union of Savings and Credit Cooperatives?

Majority of respondents who were 77% agreed that production cost had effect on outsourcing, 23% indicated that production cost had no effect on outsourcing, when the level of outsourcing fail to reduce cost in procurement activities, organization should evaluate whether outsourcing would be effective on cost, most organization don't realize cost reduction as a result of outsourcing.

5.4 Conclusion

Based on the findings the researcher draws the following conclusions on factors influencing outsourcing at the Kenya Union of Savings and Credit Cooperatives.

Strategic Plan

The research found out that strategic plan greatly influenced the need to outsource, the Union outsourced even its core activities because of over reliance on strategic plan.

Quality Improvement

The research found out that quality of services deteriorated when Kenya Union of Savings and Credit Cooperatives deciding to outsource.

Production Cost

The research found out that production cost had a negative effect on outsourcing this indicated that with the compromise on quality the overall cost went up.

5.5 *Recommendations*

1. KUSCCO should have in place clear policies in relation to outsourcing which should be strictly adhered to and standardized organization wise.
2. Organization policy should clearly show how non-core procurement activities should be outsourced so that they concentrate on their core activities.
3. KUSCCO"s ability to retain its staff is a point worth exploiting where they could do capacity building to their staff.
4. KUSCCO should outsource procurement activities to the service providers that will offer better quality services which they cannot be able to provide themselves and therefore need to in source some activities where they perform better.
5. Procurement section should put in place quality standards which need to be outsourced which should be rated excellent, the level of quality to be outsourced should be very high which should have positive effect.
6. Outsourcing should be geared towards innovation which enables an organization to gain technological advancement as a result of new innovation, the organization should evaluate whether services to be outsourced will lead to innovation hence improve the quality of services and reduce cost.

5.6 Suggestion for Further Studies

There are many factors influencing outsourcing, this therefore makes it difficult to identify all the factors influencing outsourcing at Kenya Union of Savings and Credit Cooperatives.

The study findings were narrowed into the three factors which were addressed by the research objectives, these factors cannot be fully relied upon to address future factors influencing outsourcing. Suggestion for further studies is therefore advisable to contribute towards identification of more other factors influencing outsourcing and assist in implementation of strategic measures.

In his book, How to outsource IT, let's take this outside, S. Bag saw, Ed, Desai, j. (2010). Mentions the following as reasons why there is a need to outsource, Conserve capital for investment in other areas, need to grow revenue of an organization, increase innovation, improve quality, improve skills, focus on core competence, create variable cost structure, and need to reduce operating costs. It is therefore recommended that a further study is carried out considering the above mentioned points as some of the factors necessitating outsourcing.

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