

**INFLUENCE OF OUTSOURCING DRIVERS ON PROCUREMENT PERFORMANCE OF
THE DEVOLVED SYSTEM OF GOVERNMENTS; A CASE OF BOMET COUNTY**

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Abstract

Organizations both in the public and private sectors have always sought ways to gain a performance advantage; however, with the increased movement towards a single globalized economy, this desire is even more prevalent for organizations today. However, county governments under the context of increasing use of outsourcing arrangements, as well as the unfamiliar complexity, appear unaware of how to effectively utilize the outsourcing strategy to improve procurement performance. The purpose of the study was to therefore investigate the influence of outsourcing drivers on procurement performance in Bomet County Government. This study was guided by three specific objectives; To determine the influence of outsourcing for cost reduction; outsourcing for employee competence and outsourcing for focus on core competencies on procurement performance in Bomet County Government. The study was based on Resource Based Theory (RBV), Resource Dependency Theory (RDT) and Concept of Core Competency Theory. It further employed explanatory research design targeting the 131 County management staff. Census sampling was used to select the 131 County management staff. Questionnaires administered on the managers were the data collection instrument. To test the reliability of the instruments Cronbach coefficient Alpha formula was used while validity of the instruments was measured by two experts at Jomo Kenyatta University of Agriculture and Technology who reviewed the instruments. Data was analyzed using descriptive, correlation and regression analysis then presented in tables. The findings of the study were: employee competence, cost reduction, and focus on core competencies had a significant influence on procurement performance in Bomet County. The study therefore recommends: Bomet County Government should employ strategic and well thought out outsourcing to further reduce operating and overhead costs for further firm growth. Bomet County Government should offer better terms of service and proper training to help improve employee competence and reduce costs of outsourcing its functions for better procurement performance. Bomet County Government should clearly ascertain the non-core functions to outsource and further review the potential cost and benefit to be garnered if the non-core functions are outsourced.

Keywords: Outsourcing, Cost Reduction, Core Competencies, Employee Competence

I. INTRODUCTION

1.1 Background of the Study

Organizations have always sought ways to gain a competitive advantage over their competitors; however, with the increased movement towards a single globalized economy, this desire is even more prevalent for businesses today. One strategic manner in which businesses have sought to advance their position competitively in the new business mix is to embrace outsourcing of operations which notably scholars have found has the capacity to improve performance and enhance competitive advantage of companies (Monczka and Trent, 2008; Quinn and Hilmer, 2014).

In a bid to shore up resources and competitiveness, organizations have been led forcibly to consider keenly their methods of production and alter their processes to maximize profits and other financial returns. To survive and be profitable in current globalization era, organizations have pursued continuous improvement, leaned up production, reengineered business processes, and integrated supply chains (Brannemo, 2016). Over the past decades there is a growing realization of the important contribution of outsourcing strategy on organizational performance (Cousins et al., 2016). While many organizations have followed the pattern of outsourcing some part of their operations to improve their performance, others have not, leading many to ask what factors influence the decision to use outsourcing and how such outsourcing improves organizational performance (Merino and Rodriguez, 2013; Nayak et al., 2013). Outsourcing has been referred to as a strategy in management where a company gives to others main but non-core operations to service providers who are efficient and specialized.

According to preliminary interview with management of County governments, these units are increasingly opting for outsourcing of non-core activities relating to HR, IT, security, finance, specialty services and other noncore services. The County governments feel they will be able to focus on their core activity by outsourcing functions like legal services, audit, gardening, general cleaning and upkeep, laundry, salary disbursement, provident fund, gratuity, recruitment, flexi-staffing, IT work, new product introduction, security, entertainment/animation and training to HR consultants. All these are in a bid to provide high service quality, improve on skills and experience and offer innovativeness that would consequently spur performance (Nayak et al., 2013). In general, outsourcing is considered to be that part of an organization's process, which it sources from outside suppliers, regardless of the type of relation with these suppliers (Mol et al., 2005). As such, every business engages in outsourcing to some degree, be it manufacturing, customer care, logistics, post sales, technical support, finance, auditing, staffing, parts supply or design.

Kenya is one of the top three Business Process outsourcing (BPO) destinations in Africa. Due to the Kenyan low labor pool, the country benefits from a comparatively advantageous BPO market. Although Kenya already has a growing outsourcing sector with over 50 registered companies operational, a boom is expected (Kemibaro, 2011). A growing trend in work organization is for businesses to outsource many activities that had been previously performed in-house. Outsourcing

these activities, it is argued, will free up human and capital resources as well as allow for increased flexibility in the way labour is employed. Although the extent of outsourcing and other approaches to flexibility have been well documented in developed countries, little attempt has been made to evaluate such practices in the Kenyan context and specifically in how outsourcing drivers influences procurement performance. The purpose of this study was to review the existing research and to evaluate the influence of outsourcing drivers on procurement performance in Bomet County.

1.2 Statement of the Problem

The world has incorporated the spectacle of outsourcing and organizations have implemented its principles to help them grow into other markets (Bender 2009). The way outsourcing is managed is a central management construct and the said outsourcing has become a mainstay in innovation (Quinn 2010). However, organizations under the framework of increasing use of outsourcing provisions, as well as some of its unfamiliar complexity, are unaware of how to effectively utilize this strategy to improve their procurement performance (Bender, 2009). This is especially considering that outsourcing drivers widely considered are cost reduction, employee competence and focus on core competencies but scanty information exists to link these with procurement performance. These are also largely the reason this study is being done to ascertain the influence of outsourcing drivers on procurement performance in Bomet County.

Considering outsourcing as a strategy, one has to look into the issues of employee competence, cost reduction, innovativeness and focus on core competencies as some of the core concepts. Dealing with the factor of employee competence which is a concept in outsourcing drivers, as Greer, Youngblood, and Gray (2009) observed, outsourcing drivers are often a reaction to an overpowering demand for reduced costs of services. Though some rudiments of the HR functions may have constantly been performed by external service providers, Greer et al (2009) observe that a new element is the finance-driven idea linking outsourcing to human resource management – the indication that you can save a lot of money by outsourcing to experts. Further, outsourcing is considered as a means of emancipating HR professionals within the client organization to do the more consultative, proficient and strategic role of designing and applying programs intended to preserve the workforce and enhance its performance. How far the concept of employee competence has been used as an outsourcing drivers tool is fairly unknown and was the reason for this study.

How far outsourcing for cost reduction has helped the counties is also fairly unknown. Although the extent of outsourcing and other approaches to flexibility have been well documented in developed countries (Gilley and Rasheed, 2010; Uddin, 2005; Quinn, Doorley and Paquette, 2010), little attempt has been made to evaluate such practices in the Kenyan context, paving way for this study whose focus is specifically on the influence of outsourcing drivers on procurement performance in Bomet County.

1.3 Objectives of the Study

The study was guided by both general and specific objectives:

1.3.1 General Objective

The purpose of the study was to establish the influence of outsourcing drivers on procurement performance in Bomet County.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

- To determine the influence of outsourcing for cost reduction on procurement performance in Bomet County.
- To examine the influence of outsourcing for employee competence on procurement performance in Bomet County.
- To determine the influence of outsourcing for focus on core functions on procurement performance in Bomet County.

1.4 Research Questions

- How does the outsourcing of cost influence procurement performance in Bomet County?
- How does outsourcing for employee affects competence of procurement performance in Bomet County?
- How does outsourcing for core functions affect procurement performance in Bomet County.?

II. LITERATURE REVIEW

2.1 Theoretical Review

The Resource Dependency Theory, the core competence model and the Resource-Based View of the Firm are the three predominant theories that were used to anchor the present study on outsourcing drivers. These three theories have hereby been reviewed to check their relevance to the present study.

2.1.1 Resource Dependency Theory

Resource dependence theory (RDT) by Pfeffer and Salancik (1978) is generally the study of how external resources of organizations influence the conduct of the organization. The obtaining of external resources is an important aspect of both the strategic and tactical management of any organization. Resource dependence theory has consequences as regards the optimum divisional structure of organizations, staffing of board members and employees, production policies, contract structure, external organizational connections, and many other tenets of organizational strategy (Deckers, 2010).

The basic arguments for resource dependence theory can be summarized as follows: 1) Organizations rely heavily on resources; 2) These resources eventually come originally from an organization's environment. 3) The environment, to a substantial extent, comprises of other

organizations.4) The resources one organization requires are thus repeatedly in the hand of other organizations. 5) Resources are a foundation of power. 6) Legally independent organizations can consequently be contingent on each other. 7) Power and resource dependency are directly connected: Organization A's power over organization B is equal to organization B's reliance on organization A's resources. 8) Power is thus interactive, situational and theoretically mutual (Pfeffer and Salancik, 1978).

Based on the present study this theory is particularly relevant considering that outsourcing is largely hinged on external resource manipulations to improve the outworking of the organization. Outsourcing is, as reviewed, an aspect that demands external resources, be it human or operational, to help an organization meets its core functions.

2.1.2 Core Competence Model

According to the Core Competence Model or **Hamel and Prahalad Model**, which was developed by Hamel and Prahalad (2001), organizations can move into new markets and market growth possibilities more easily by using their core competences. The reason to define core competences is the (specialized) available knowledge that is difficult to imitate by other organizations.

By using its core competence an organization is capable of developing unexpected and surprising products provided that the production costs are low and that developments can be realized faster than those of the competition (Lawson, 2009). There are more advantages to be obtained when core competence is applied to all organization-wide technologies and production skills. This will enable the organization to respond quickly and flexibly to a dynamic environment, based on using core competence.

The Core Competence Model focuses on a combination of specific, collaborative, integrated and applied knowledge, skills and attitude. According to Hamel and Prahalad (2001), the strategic objectives should not focus on fighting off the competition, but on creating a new competitive space. They should look to the future rather than look back on the past. The Core Competence Model comprises four core competences: Resources; these are the sources for the development and acquisition of skills and technologies. Capabilities; the various possibilities to build core competences. Competitive advantage; The challenge to acquire and develop the largest possible market share of core products. Finally, strategy; the strategy to develop the largest possible market share of finished products (Hamel and Prahalad, 2001). This theory is relevant to the present study as it is premised on the idea of building up on core competencies to improve procurement performance. Outsourcing is one way to have any business improve its performance and hence the relevance of this theory.

2.1.3 Resource-Based View Theory

This study will be specifically based on the Resource-Based View theory as propagated by Wernerfelt, (1984). The theory asserts that a firm has the capability to realize and endure competitive advantage if it holds resources that are valuable, rare, improperly imitable and non-substitutable. This is because not the entire spectrum of organizational resources is strategically

applicable within an organization. The goal of any company is to make certain that it has within its reach the control of valuable resources by evolving and securing all the applicable resources either internally or externally. If a firm holds key resources that possess strategic value, it is beneficial to then retain the activity in-house. On the other hand, if the strategic value of target tasks is low and no substantial internal resources are readily available to perform such tasks, it is better for the company to outsource those (Nayak et al, 2013).

For the justifiable competitive advantages firms are compelled to trust a multitude of outside contractors for parts, software, competence and sales and in doing so acquire entree to valuable resources and external capabilities (Langlois 1990). The argument here conjoins with the need and factors that lead to outsourcing driverss in companies, be it cost reduction, new product/services introduction, focus on core competencies or labour flexibility and how they improve organizational performance. Consequently, the RBV perspective becomes the appropriate theory for this study as many hotel companies would consider outsourcing due to the fact that they may at times not have the internal resources to effectively do works that can be outsourced, which then frees them to do the core business.

2.2 Conceptual Framework

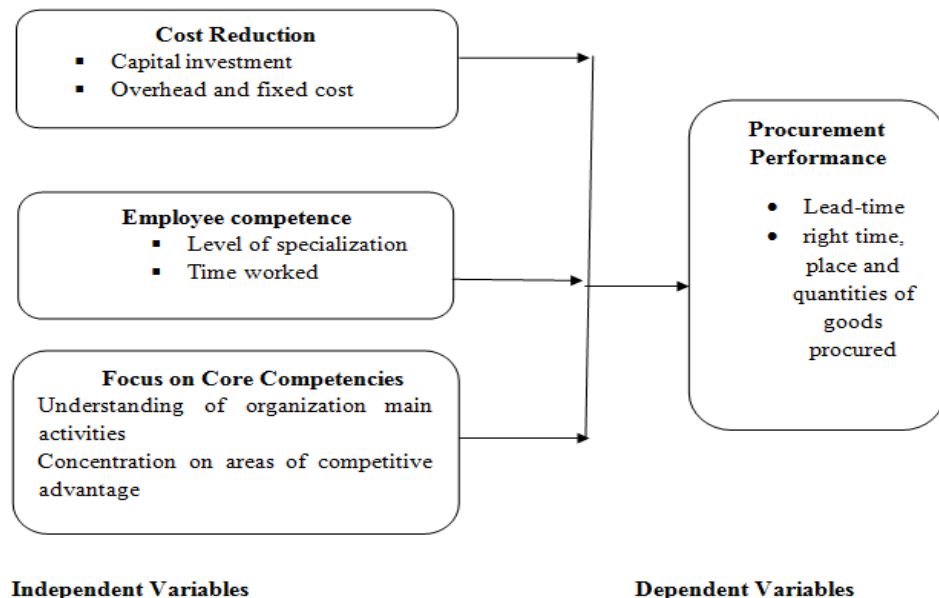


Figure. 1 Conceptual Framework

2.2.1 Outsourcing drivers

Research on outsourcing has an established history in economic research and frequently, researchers have argued that cost dissimilarities between make and buy are vital for the outsourcing drivers. For instance, Burke and Ng (2016) in their study of companies in Norway discussed the outsourcing of HR functions in the context of companies' cost burdens prompted by the globalization of companies. In their survey and regressed results, they found out that outsourcing drivers and cost cutting desires were strongly intertwined. Cánez et al. (2010) on their part in a study in Mexico, present a model of outsourcing drivers and discover that cost effects are the most significant element in the outsourcing drivers.

Walker and Weber (2014) on their part, analyzed transaction and production cost impacts of 60 make-or-buy decisions in the U.S. automobile industry. While volume vagueness and dealer market competition have a small, but major effect, production costs were found to be the resilient predictor of make-or-buy decisions in their analyses. Some researchers argue that significant benefits of outsourcing need to be measured against an increase in transactional cost and a decline in flexibility – the benefits being, primarily, the capability to focus on the core functions and strategic matters, secondly, the use of know-how and economies of scale of the service provider, thirdly, superior management of the cost structure.

The wide-ranging outsourcing model advanced by Arnold (2010) demonstrates that there are four key components which need to be studied when making outsourcing drivers: firstly, it's the outsourcing subject, then outsourcing object, next is the outsourcing partner, and finally the outsourcing design. Originally, organizations should focus on outsourcing the subject, which includes the decision making process to govern if outsourcing is a feasible option. Organizations should consequently look into which internal tasks might be outsourced. Outsourcing objects refers, according to Arnold (2010), to the task which might be outsourced and is related to the degree of manufacturing diffusion with respect to organization activities, comprising of core activities, core-close activities, core-distinct activities, and non-refundable activities. Arnold (2010) notes that if the task is a core competency, highly specific and significant for organizational strategy, it then makes no sense to outsource these kinds of tasks. Subsequently, organizations should deliberate on an outsourcing partner from all likely outsourcing providers. Lastly, when outsourcing internal tasks, organizations need to express the most suitable outsourcing design. Moreover, Arnold (2010) proposes that organizations should focus on three key governance structures when making outsourcing drivers. These comprise the price of external services, the aspect of management control, and other governances, counting contracts or strategic alliances. In spite of addressing specific decision making with respect to outsourcing, this model places no esteem on employee involvement.

Abraham and Taylor (2016) in their study of firms in the US through a descriptive survey and correlated and multiple regressed results, found only incomplete evidence that the hunt for lower costs was driving outsourcing, in as much as the outsourcing of lower skilled activities seemed to be motivated by a yearning to reduce hourly labour costs. Correspondingly, Wooden and Vanden Heuvel (2016) discovered that accessing expert skills, managing peak periods, and

the aptitude to deal with one off tasks were the key reasons businesses had used contract labour. As Sharpe (2013) argued 'outsourcing allows organizations to acquire the benefit of state-of-the-art skills and technologies without investing directly in their growth or exposing themselves to more risk than they can take on'. Abraham and Taylor (2016) further found backing for this project in that smaller businesses were likely to have outsourced more highly competent activities.

Studies from the Resource Based View viewpoint propose that firms base their decisions on whether outsourcing cuts costs or shapes strategic advantages (Sharpe, 2013). This has created much research on how using outsourcing to reduce costs or acquire strategic advantages influences firm performance. A review of the literature shows that most empirical research and discussion scrutinize cost reduction and strategic advantages as mutually exclusive intentions for outsourcing (Quinn, Doorley, and Pacquette, 2010).

III. RESEARCH METHODOLOGY

3.1 Research Design

Explanatory research design was used in this study. Cooper and Schindler, (2010) asserted that explanatory research is premised on the why question and is thus concerned with casual relationships where for instance Y (procurement performance) is affected, either positively or negatively by factor X (outsourcing). This design was chosen because it applied closely to influence of outsourcing on procurement performance in Bomet County.

3.2 Target Population

The study targeted the 25 financial, 28 Administration and 29 HR managers and 26 procurement/purchase management staff at the Bomet County government This brought the total target population to 108 respondents (See Table 3.1). This was not the total staff at the County government but management staff who were qualified to answer questions on outsourcing and the factors influencing thereof.

3.3 Sample and Sampling Techniques

This study adopted census sampling technique. This was because there was evidence of "natural" but relatively homogeneous groupings in the statistical population under study Saunders, Lewis and Thornhill (2003) argue that dividing the population into a series of relevant clusters means that the sample is more likely to be representative. Moreover, census sampling technique was chosen for this study as it would increase a sample's statistical efficiency, provide adequate data for analyzing the various subpopulations or cluster and also enable different research methods and procedures to be used in different clusters (Coopers and Schindler, 2011).

3.4 Data Collection Instruments

Primary data was collected by administering open and close-ended questionnaire to the respondents. The questionnaire was delivered to the employees in their respective position and departments. Questionnaires provide a high degree of data standardization and adoption of generalized information amongst any population. They are useful in a descriptive study where there is need to quickly and easily get information from people in a non-threatening way. Flick (2008) holds that questionnaires are useful in establishing the number of people who hold certain beliefs and hence possible to gauge public opinion on an issue. The responses were gathered in a standardized way, so questionnaires were considered more objective, certainly more so than interviews. Moreover, it was relatively quick to collect information using questionnaires.

3.5 Data Analysis and Presentation

Both descriptive and inferential statistics was adopted for the study. The quantitative data was analyzed by using descriptive statistics which includes frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a regression model which established the relationship between variables. Data will be analyzed by the use of a statistical software SPSS version 20. To measure influence of outsourcing drivers on performance of the devolved system of Government; a case of Bomet County, the study will adopt the linear regression model and Pearson correlation. The Pearson correlation will test the strength of the relationship while the regression analysis will establish the form of relationship between the independent and dependent variable. The regression will take the following form:

$$Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4 + \epsilon$$

Where: Y = Procurement Performance

χ_1 = Cost reduction

χ_2 = Employee Competences

χ_3 = Focus on core competence

β_0 = the constant

β_{1-n} = the regression coefficient or change included in Y by each χ .

ϵ = error term

IV. RESULTS AND DISCUSSION

4.1 Inferential Analysis

This section highlights the inferential analysis used characterized by correlation and regression analyses.

4.1.1 Correlation Analysis

Pearson's Correlation Analysis was done on the Independent Variables and the dependent variables.

		Procurement Performance	Employee Competence	Core Competencies	Cost Reduction
Procurement Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	60			
Employee Competence	Pearson Correlation	.635**	1		
	Sig. (2-tailed)	.000			
	N	60	60		
Core Competencies	Pearson Correlation	.578	.127**	1	
	Sig. (2-tailed)	.000	.002		
	N	60	60	60	
Cost Reduction	Pearson Correlation	.712**	.038	.557**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	60	60	60	60

Table 1 Correlation Analyses

Pearson correlation analysis was conducted to examine the relationship between the variables. Baically, all the independent variables had a positive correlation with the dependent variable with cost reduction having the highest correlation of ($r=0.712$, $p< 0.01$) followed by employee competence with a correlation of ($r=0.635$ $p< 0.01$), focus on core competence has the least correlation of ($r= 0.578$ $p< 0.01$). This indicates that all the variables are statistically significant at the 99% confidence interval level 2-tailed. This shows that all the variables under consideration have a positive relationship on the dependent variable.

4.1.2 Regression Analysis

As part of the study regression analyses was done to ascertain the degree to which the independent variables predicted the dependent variable. The results are as seen in the following

Table 2 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	F-Statistic	R Square R ²	Adjusted R Square	t	Sig.
	B	Std. Error	β					
1 (Constant)	2.767	.361	.287	114.491	.848	.841	7.668	.000
Cost reduction	.168	.065	.193				2.593	.004
Employee Competence	.385	.078	.393				5.968	.000
Core Competence	.329	.064	.352				5.129	.000

a. Dependent Variable: Procurement Performance

table.

The F-statistics produced ($F = 114.491$.) was significant at 5 per cent level ($\text{Sig. } F < 0.05$), thus confirming the fitness of the model and therefore, there is statistically significant relationship between employee competence, cost reduction, focus on core competencies, and procurement performance. Further, the coefficient of determination R^2 value was 0.841. This shows that 84.1 per cent of the variance in dependent variable (procurement performance) was explained and predicted by independent variables (employee competence, cost reduction and focus on core competencies). Further, the t-value of constant produced ($t = 7.668$) was significant at .000 per cent level ($\text{Sig. } F < 0.05$), thus confirming the fitness of the model. Therefore, there is statistically significant relationship between employee competence, cost reduction, and focus on core competencies and procurement performance. Cost reduction was significant ($p < 0.05$) in

procurement performance. Employee Competence was significant ($p < 0.05$) in procurement performance. Outsourcing has been viewed as an impetus and agent for change. Focus on core competencies was significant ($p < 0.05$) in procurement performance. This implies that focuses on core competencies affects outsourcing decision in the County Government of Bomet.

From: Regression Model

$$y_{od} = \alpha + \beta_1 (EC) + \beta_2 (CR) + \beta_3 (CC) + e$$

Thus;

$$y_{od} = 2.767 + 0.393 (EC) + 0.193 (CR) + 0.352 (CC)$$

V. CONCLUSIONS AND RECOMMENDATIONS

Based on the objectives and findings of the study, the following are the conclusions

Based on the first objective, outsourcing reduced costs; both overhead and fixed costs. Outsourcing for cost reduction created better short and long term procurement performance. Further, firms equated the cost of outsourcing to the cost of acquiring additional resources to do work internally and it also generated needed cash when firms sold assets or transferred employees to vendors. Cost reduction was a major factor considered when outsourcing. It can therefore be concluded that cost reduction was a significant influence on procurement performance in Bomet County Government. Based on the second objective, the county had no highly skilled labor with long standing experience. However, the county had experts and specialist in all sectors including IT and Operations. Moreover, outsourcing had become necessary because of the unskilled labour and lack of specialists. Further, the county was not as competitive as it should be because of unskilled labour and therefore created a need to outsource. It can therefore be concluded that employee competence was a significant influence on procurement performance in Bomet County Government

Based on the third objective, managers were sure of what the core competency of their respective county was. Their respective county needed to concentrate on its core functions to remain top performers and therefore did outsourcing to ease it from many other functions. Finally, one of the main reasons why the county outsourced was because of need to focus on core functions or competencies. It can therefore be concluded that focus on core competencies was a significant influence on procurement performance in Bomet County Government

Thus, based on the objectives and conclusions this study recommends; Bomet County Government should employ strategic and well thought out outsourcing to further reduce operating and overhead costs for further firm growth. Bomet County Government should offer better terms of service and proper training to help improve employee competence and reduce costs of outsourcing its functions for better procurement performance. Also, Bomet County Government should clearly ascertain the non-core functions to outsource and further review the potential cost and benefit to be garnered if the non-core functions are outsourced.

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