

# **The Role of Organization Policy on Influencing Outsourcing in Government Parastatals (A Case Study of Kenya Ports Authority)**

FATMA S. ABDALLA, County Government of Lamu, Kenya

AGGREY LUGENDO

SAMMY K. TANUI

BONIFACE S. MWANZIA

BENJAMIN J. SHITSESWA

&

DUNCAN IKUA, Kenya School of Government

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## **ABSTRACT**

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effective improvements. Outsourcing assists management to focus all their intellectual resources, expertise and time on the distinctive competencies that give the organization an edge in the market. With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers.

The objective of the study was to find out whether organizational policy affects outsourcing in government parastatals (A Case Study of Kenya Ports Authority). The study targeted all the 29 heads of department at Kenya ports authority. The study adopted a descriptive case study. It was useful in that it helped the researchers to collect data on phenomena that could not be observed directly. Data was collected using questionnaires which consisted of both open and closed ended questions. The data collected was analyzed using descriptive statistics and classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables.

The study showed that most of the departments representing 79 percent do outsource. Majority of our respondents representing 58 percent indicated that staffing levels had no influence on outsourcing, while 29 percent indicated it had influence on outsourcing. The study further revealed that more than half of the respondents were aware that the organization had a policy on outsourcing. Factors which influence outsourcing were lack of skills, operational cost, productivity, technology and quality of service. However the respondent gave their own opinion as to what influence outsourcing citing non-core activities, demand for service, implementation of new technology, and compromise of quality and lack of expertise on technological areas as the major reasons outsourcing.

From the research findings organizations should concentrate on core activities and contract non-core activities as this cuts costs, enhances productivity/ performance and ultimately improves service delivery.

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

In the last two decades businesses have been reviewing and restructuring their operations in response to a changing world economy. Many firms have responded to these pressures by concentrating on their core functions and letting out their auxiliary activities to external providers. Activities such as legal, accounting services, catering, security, cleaning, building or equipment maintenance and information technology was among the services contracted.

In the current global system of ever increasing competition, organizations are looking for new ways to gain competitive edge and generate value by cutting on operational costs. This has made the heads of procurement and chief executives to contribute more to efficiency, by outsourcing non-core functions as a measure to cut down costs and increase efficiency. More recently the scope of service considered for outsourcing has been extended considerably. In the recent years privatization of activities in the public sector has been driven by the Government in order to improve efficiency and effectiveness of the public sector bodies. (Baily et al. 2008)

Discussions are rife in government parastatals to gauge the advantages and disadvantages of outsourcing of non- core functions. The current attitude is that outsourcing of services is possible but care must be exercised not to outsource what an organization does best (Kotler, 2003).

Outsourcing is an arrangement whereby a contracting agency enters into a contract with a supplier from outside for the provision of goods and services which typically have been provided internally. Outsourcing of services is therefore valuable if it identifies the factors that should be considered when decisions about outsourcing of services are made. Outsourcing of services therefore when properly structured and monitored can lead to numerous benefits such as reduced operational costs, improved service delivery and increased efficiency and innovation.

In the 1970s and 1980s many governments began to re-evaluate their role to examine which activities governments should be engaged in and how they should be carried out. Faced with growing demand for government services in a time of economic uncertainty, governments began to look for ways to increase efficiency. Practices from the private sector, such as outsourcing, were introduced on a substantial scale into public sector. The United Kingdom, United States and the New Zealand were in the fore front of these reforms. The ranges of activities which have been contracted out in western countries include cleaning, catering, prison management, security and many other services. (Figgis& Griffith, 1997)

The commonwealth Government and most State government have implemented formal policies and guidelines on competitive tendering and contracting. Government enthusiasm for contracting out has to a larger extent been a result of the influence of economic theory on public sector management. While the immediate impetus for the reforms were budgetary pressure and the need to reduce government spending. (Figgis& Griffith, 1997)

In Kenya, public service sector has also moved towards this direction of adopting outsourcing as one way to reduce government spending, reduce operational costs, increasing performance and efficiency in the sector. Kenya is currently facing a big challenge and it is evident on the current wage bill which takes over 70% of the total revenue collected.

This paper attempted to examine the factors that influence outsourcing of services in government parastatals. It must be highlighted that the effectiveness of outsourcing is measured using perceived measures as described by Elmuti, (2004). The target populations comprises of all heads of department at Kenya ports authority (KPA). KPA is a unique organization and is deemed to have a wide range of operations, hence the need to consider contracting some services to improve efficiency and effectiveness. This uniqueness of KPA being the only entity of its kind in the country has increased the need to undertake this study to seal it from possible operational challenges.

## **1.2 Statement of the Problem**

Successful major organizations in the public sector recognize that investing is vital for future success (Quinn, 1999). At independence the public service was composed of departments dealing with purely service delivery at no fee to the citizens and other departments delivering services and at the same time generating income for the government. To increase efficiency and effectiveness in the income generating departments, the government thought it wise to de-link them from the core public service and made them autonomous bodies.

This saw the birth of various government parastatals. Though they fall under mother ministries they operate independently with independent organizational and administrative structures. Like any other private entity, parastatals are geared towards making profits. However, in recent years some of these parastatals have either been making losses or making minimum profits (annual financial statements in the media). This phenomenon was exposed recently by government commission 2013 which recommended the scraping of parastatals and merging others whose functions were deemed similar.

Rather than rely strictly on revenue increases most corporations now focus their attention on employee efficiency and cost containment. Government agencies are facing several critical issues at once: loss of personnel to retirement, shrinking budgets, and a refocus of Government funding as it deals with unprecedented financial issues (Hancox and Hackney, 2000).

Banerjee, P. (2004) suggests that in order for an out-sourcing strategy to work effectively, organization must proactively manage their outsourcing of services strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. The benefits of outsourcing of services at KPA make it well worth considering the fact is outsourcing is critical to business, but it's not the business most corporations are in.

Several studies on outsourcing of services have been conducted locally. Kinyua (2000) surveyed outsourcing of training services of selected financial activities by publicly quoted companies in Kenya and found that the practice provided opportunities for cutting down costs and creating competitive advantages; Kirui (2001) conducted a survey on competitive advantage through outsourcing of training services in supply chain services which was a case study of BAT and established that the company outsource non-core services like accounting and financial

services, human resource services, customer care services, security services, and cleaning services because they are repetitive in nature resulting in reduction in operating costs; improve service delivery and increase efficiency and innovation, while Motari (2002) carried out a survey on outsourcing of logistics practices of medium and large Kenyan manufacturing firms and concluded that outsourcing allowed the companies to refocus their resources on their core manufacturing business.

Despite the fact that the outsourcing of services is drawing quite a bit of attention and the value they bring can be tremendous. It is worth noting that there is no evidence of local studies that have focused on outsourcing of services in KPA hence leaving a research gap.

## **LITERATURE REVIEW**

### **2.1 Kenya Port Authority**

The port of Mombasa can trace its history back many centuries to a time when dhows called at the old port on the north side of Mombasa Island. After Kenya gained its independence in 1963 together with its East African neighbors in 1967 they joined forces to set up the East African Community (EAC). They also formed a new Authority, the East African Harbour Corporation to run the principal ports of Dar-esaalam, Mombasa and the oil port of Tanga. There was a positive development under this new organization but with the collapse of EAC in 1977, the running of Kenya's port was taken over by the national government, which established the Kenya ports authority (KPA) in 1978.

### **2.2 Definition of Outsourcing**

To understand the topic thoroughly and with ease we have tried to give as many definitions as possible. According to Jennings (2002), outsourcing refers to any circumstances where an institution contracts with different organization for the provision of service that could equally be provided by a person, unit or department within the organization that requires the service (Best and Khan, (2004). The word outsourcing defines the practice of transferring the responsibility for a definite business function from an employee group to non- employee group. Outsourcing is known as probable source of competitiveness and wealth creation through decreasing costs, scaling with mass, disturbing innovation, and strategic relocation. According to Hadfield et al, (2009), outsourcing of training services provides some leverage that is not available to a company's domestic departments. This leverage can have numerous dimensions- i.e. economies of scale, process expertise, access to capital, access to luxurious technology, the mixture of these dimensions creates the cost savings intrinsic in outsourcing.

Outsourcing is commerce approach whereby a company hires an autonomous outside company work such functions includes accounting and financial services, human resource services, customer services, security services, and cleaning services (Kotler, 2003). This is for the reason that these services are non – core and recurring in nature thus similar in almost all organizations. Moreover they can be completed by an outside company at cheaper cost or at the equivalent cost but in better ways (CIPSstudy guide, 2006)

CIPS study guide, 2006 further defines outsourcing as contracting out as a form of privatization that refers to an institutions resolution to contract with an external firm to provide utility or service. In private sector this involves relinquishing the otherwise internal activities to external service providers to achieve the organizations expectations as driven by the push and pull factors that influence outsourcing.

From the international scene, the government of new South Wales- Australia appointed an industry commission in 1996 to study and report back on “competitive tendering and contracting by public sector agencies” with terms of reference including the definition of the term contracting out given as-“An arrangement whereby a contracting agency enters into contract with a supplier from outside that agency for the provision of goods and or services which typically have previously been provided internally”.

Thus, while contracting out is often associated, practically and in theory, with “competitive tendering” the two terms do not appear to coterminous. The findings of the south Wales commission defined tendering to mean” the process of selecting a preferred supplier from a range of potential contractors by seeking offers (tenders) and evaluating these on the basis of one or more selection criteria. More often the term competitive tendering and contracting (CTC) is used to describe the general trend in public and private sector management is associated with out sourcing.

### **2.3 Organization Policy**

The move towards introducing competition to the public sector has been reinforced by subsequent government Parastatals. Most of the services are contracted out at present, including cleaning services, securities services; it maintained services and many more. Some review process are normally conducted to include considerations of whether the use of competitive tendering and contracting or other performance improvement tool would enable government services to be delivered in a much better ways so as to minimizing operational cost and maximizing profit.

In 1992 the former coalition government issued a vision statement, 'Facing the World" setting out its commitment to providing value for money to the people of New South Wales. Promoting effective competition was seen as a way to achieve this. Under this policy, all areas of government were to open to consideration for contracting, including the traditional core or operational function and services of each organization (S. Domberger and C Hall 1992). The first guidelines for competitive tendering and contracting in the NSW were issued in 1991(NSW Premier's Department, Office of Public Management, 1991).

In 1993 a survey was conducted in NSW of all budget sector agencies and several Government trading enterprises (S Domberger S Farago and C Hall, 1993). The survey aimed to quantify the extent of contracting activity in the NSW public sector. It identified contracts with an annual value of over \$540 million.

Implementing the policy, the pursuit of best value for money rather than the adoption of a particular means of achieving that end, is the essential factor. The most appropriate means can only be determined after case by case assessment.

## **2.4 Theoretical review**

Outsourcing has received increasing attention among researchers over the last decades. The field is still in an early stage and multitude of theoretical framework has been used to study it. The theory that lay foundation to this study is agency theory, contingency theory, resource based view and finally transaction cost economic/analysis. In this section we provide a brief overview of the two of those theories in terms of their general prepositions.

### **2.5 Agency Theory**

Agency theory deals with the principal agent problem, in which the principal delegates an activity to an agent. Principals and agents are assumed to be self-interested, rational and risk averse (Eisenhardt, 1998). There are two problems with agency theory where the agent's goal does not always meet with the principal's and it is difficult or expensive for the principal to verify or control the agent's behavior. The latter is that of risk- sharing. Since both the agent and the principal are risk averse, they may prefer different approaches towards risk- sharing and this results in increased agency costs for developing monitoring and enforcing contracts.( Eisenhardt, 1998).agency cost also decreases over time as principals and agents develop better relations through repeated transaction( Gong, 2003).

### **2.6 Contingency Theory**

Contingency theory is probably the most but lease defined. Proposition in organization research may be considered a contingency theory ( Drazin and Van de Ven, 1985) as long as they specify a relationship that holds during certain conditions. This brings about the concept of fit between organizational variables and environmental variables.

Under this view it is suggested that organizations that face a high degree of uncertainty in their environment, for example due to fluctuations in rents ad or prices, may seek to ensure some stability by entering into outsourcing contract (Koberg and Ungson, 1987). This framework may be understood in context of resources with regards to outsourcing. An organization has selected, acquired and combined a set of resources may not be sufficient for it to meet its goals. This cause the organizations to perceive a gap between its presents capabilities and its intended capabilities and this gap may be also caused by the dynamics of the external environment. The changing environment may expose new opportunities and threats to the firm. This again causes the perception of a gap between the present resources of a firm and the need to exploit opportunities and counter threats. The organizations seek to achieve a fit between the resources of the firm and the competitive environment by acquiring the resources in the gap either through outsourcing or internalizing.

The perspective of contingency theory environmental uncertainty or dynamism is an antecedent to outsourcing. Greater environmental uncertainty will lead to an increasing in outsourcing. As a consequence of outsourcing, the contingency theory implies greater organization environment fit.



## 2.7 Conceptual Framework

A conceptual framework can be defined as a set of broad ideas and principles taken from relevant field of enquiry and used to structure a subsequent presentation (Reichel and Ramey1987). The diagram below will guide the study and show interrelatedness among the key variables in the study as illustrated in Fig 2.1.

### INDEPENDENT VARIABLES

### DEPENDENT VARIABLE



Fig.2.1 Diagram showing variable relationships

## 2.8 Critique of the Literature Review

Study Results indicated that there were opportunities for cutting down costs; however outsourcing does also generate some problems. Outsourcing reduces the organization control over how certain services are delivered which in turn may raise organization liability exposure (Casale 1996).

## RESEARCH METHODOLOGY

### 3.1 Research Design

The study adopted a descriptive case study design. According Babbie (1995), this design refers to a set of methods and procedures that describe events and variables. It involves gathering data that describe events and then organize tabulate, depict and describe data. Descriptive survey portray the variable by answering who, what, and how questions (Babbie (1995).

### **3.2 Target Population**

The target population of this study encompassed 29 heads of department at Kenya Ports Authority (KPA). The information we are researching on could only be obtained from the heads of department in the organization.

### **3.3 Sampling Frame**

Our sampling frame was list of 29 heads of various departments. The sampling frame was too small to apply the existing sampling techniques and therefore we undertook a complete census.

### **3.4 Instruments**

Our data collection tool was a questionnaire administered to all heads of departments.

### **3.5 Data Collection**

A simple questionnaire was hand delivered to the respective respondents (HoDs) by research assistants and administered through direct enumeration method.

### **3.6 Processing and Data Analysis**

Data collected was analyzed using Statistical Package for Social Scientists (SPSS Version 16) to establish the factors influencing outsourcing in government parastatals. Descriptive statistics was used to derive at the findings.

## **4.0 DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The research objective was to establish the factors which influence outsourcing at government parastatals, a case study of Kenya Ports Authority (KPA). This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions.

#### **4.1.1 Respondent Background**

The respondents for the study were heads of department at the Kenya Ports Authority (KPA). Out of the 29 questionnaires issued out, 24 were returned. This represented a response rate of 83 percent.



**4.1.2 Response on Department Outsourcing**

Table 4.1 Outsourced Service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.specialised IT system consultancy	3	12.5	16.7	16.7
	2.cleaning services	1	4.2	5.6	22.2
	3.ASD Tugs dry docking	1	4.2	5.6	27.8
	4.Legal	1	4.2	5.6	33.3
	5.Guarding of External Asset	1	4.2	5.6	38.9
	6.catering services	1	4.2	5.6	44.4
	7.recruitment services	1	4.2	5.6	50.0
	8.cargo surveys/verification services	1	4.2	5.6	55.6
	9.office equipments maintainers	1	4.2	5.6	61.1
	10.printing, media monitoring & creative design	1	4.2	5.6	66.7
	11.productivity/performance improvement	2	8.3	11.1	77.8
	12.consultancy services	4	16.7	22.2	100.0
	Total	18	75.0	100.0	
Missing	System	6	25.0		
Total		24	100.0		

The research sought to establish the number of departments which outsource. The study revealed that 19 out of 24 departments which represented 79 percent did outsourcing while 21 percent did not outsource (see table 4.1 above). Among the services outsourced, five services including office equipment and maintenance, specialized IT services consultancy, printing, productivity/ performance and consultancy appeared to have higher frequency cutting across most of the departments.

### 4.1.3 Outsourcing Improves Service Delivery

Table 4.2. Service Delivery

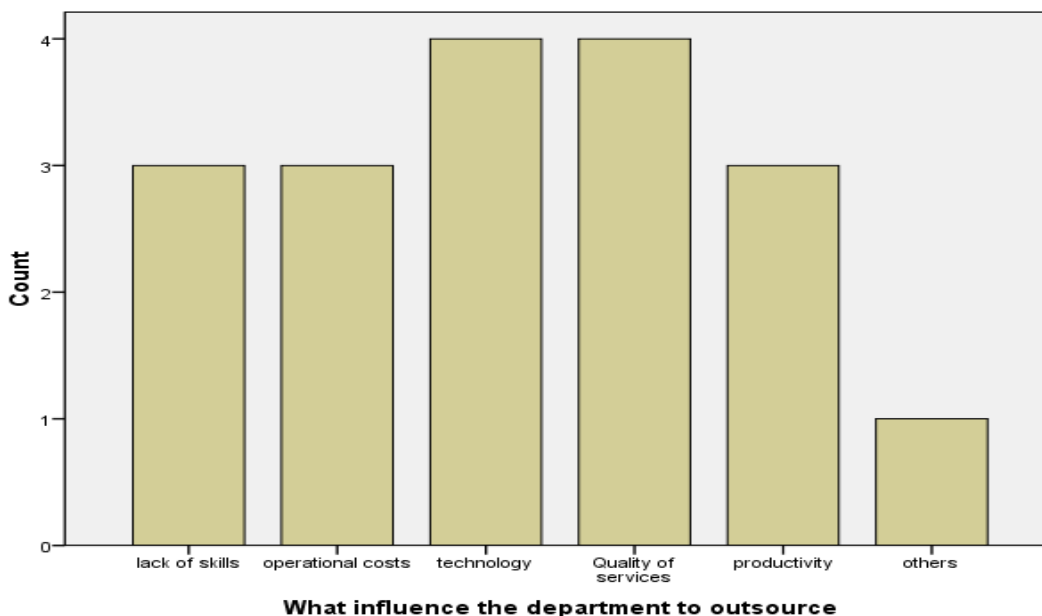
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	moderate extent	7	29.2	35.0	35.0
	great extent	11	45.8	55.0	90.0
	very great extent	2	8.3	10.0	100.0
	Total	20	83.3	100.0	
Missing	System	4	16.7		
Total		24	100.0		

Table 4.1 above shows how outsourcing improved service delivery. From the findings, it was found that outsourcing improved service delivery to a **great extent** by 46 percent, to **moderate extent** by 29 percent and to **very great extent** by 8 percent.

## 4.2. Response on organizational policy

### 4.2.1 Factors influencing departments to outsource

Fig 4.1 factors influencing departments to outsource



The study revealed that 58 percent of the respondents were aware that organization had a policy on outsourcing while 33 percent were not aware. Findings indicated that lack of skills,

operational cost and productivity represented 13 percent each while technology and quality of service represented 17 percent each as factors that influenced outsourcing in the department. This finding concurs with Handfiled et al. 2009 as reported in chapter two that Organizations are confirming to be highly specialized in product and product technology which contributes to greater cost differential among organizations. Organizations will increasingly, therefore focus more on what they excel at, while outsourcing areas of non-expertise.

#### 4.2.1 Factors influencing departments to outsource

The research also sought to find out to what extent had the above variables influenced outsourcing. It was therefore observed that to a **little extent**, lack of skills contributed to outsourcing

Table 4.3 Extent to which operational cost influenced outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not at all	4	16.7	19.0	19.0
	little extent	3	12.5	14.3	33.3
	moderate extent	4	16.7	19.0	52.4
	great extent	5	20.8	23.8	76.2
	very great extent	5	20.8	23.8	100.0
	Total	21	87.5	100.0	
Missing	System	3	12.5		
Total		24	100.0		

The table above shows that operational cost contributed to a **very great extent** with 21 percent. However, the respondents who were heads of departments gave additional reasons in their own opinion as to what influenced outsourcing in the organization.

The organization's mission was to render quality port services and therefore non-core business should best be outsourced and done when necessary or on demand. The fact that outsourcing had to be through competitive tendering, sometimes compromised quality when the lowest quote was not necessarily the best. It was also observed that when implementing new technology outsourcing was necessary.

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary of Findings**

The study targeted all heads of departments from Kenya ports authority to provide clear picture of the factors influencing the outsourcing in the organization. The study showed that most of the department representing 79 percent do outsource. The findings revealed that, the organization outsourced 24 services and among the services outsourced with high frequency and cutting across all departments were office equipment and maintenance, specialized IT consultancy services, printing, productivity/ performance and consultancy. From the findings service delivery was improved by 46 percent.

The study further revealed that more than half of the respondents were aware that the organization had a policy on outsourcing. Factors which influence outsourcing were lack of skills, operational cost, productivity, technology and quality of service. However the respondent gave their own opinion as to what influence outsourcing citing non-core activities, demand for service, implementation of new technology, and compromise of quality and lack of expertise on technological areas as the major reasons outsourcing.

Majority of our respondents representing 58 percent indicated that staffing levels had no influence on outsourcing, while 29 percent indicated it had influence on outsourcing. Half (50 percent) of the responses indicated that operational cost influenced outsourcing in the organization while 46 percent indicated operational cost did not influence outsourcing. In their own opinion, the respondents felt that it was costly to employ from outside and in order to control wage bill it is important to cut cost on full time employees. Further they felt annual maintenance and process of internal recruitment takes long hence need to outsource.

In outsourcing it emerged that there are challenges which comes along with it. Respondents cited several challenges and among the cited ones are inadequate time to train on IT, critical skills not transferred to employees, contractors trying to limit their expenses and that organization incurs extra due to delays.

The study also sought to establish whether outsourcing has any impact on organizational operations. Findings revealed several positive impacts such as cost cutting, getting timely, capacity building, productivity and safe working condition and organizations able to concentrate on core functions. Likewise negative impacts identified included bloated staff levels, fear of breach of contracts, high repair costs, professionalism being compromised and religious and political interference interfering with staff deployment.

### **5.2 Conclusion**

The study established that outsourcing in government parastatals is inevitable as evidenced by high number of outsourced services in the organization. It was found out that, when you outsourced within timelines and within budget, productivity and safe working conditions are

realized. Work is done and completed on time, departments are able to concentrate on their core activities and performance and service delivery realized and envisaged.

It was also found that outsourcing is very important when implementing new technology in an organization. Likewise, while considering staffing one should target quality instead quantity and at the same time be time bound.

### **5.3 Recommendations**

From the research study one can confidently recommend that outsourcing is good and should be embraced. Organizations should concentrate on core activities and sub contract non-core activities as this cuts costs, enhances productivity/ performance, improve service delivery, organizational policy adhered to and staffing is clearly organized and planned. When organizations outsource several functions, it is recommended that they consider engaging trustworthy and credible contactors.

There is need to put in place policy to address staff matters to guide on recruitment, retention and succession planning. It is important to outsource so that professionalism at work place is not compromised. Further it is also important to engage private contractors to avoid religious and political interference.

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