International Journal of Academic Research in Business and Social Sciences
March 2015, Vol. 5, No. 3
ISSN: 2222-6990

Relationship between Outsourcing and Operational Performance of Kenya's Energy Sector: A Case Study of Kenya Power

Stanley N. Mwichigi
Jomo Kenyatta University of Agriculture and Technology, Kenya
Email: stan.mwichigi@gmail.com

Esther Wangethi Waiganjo, PhD
Jomo Kenyatta University of Agriculture and Technology, Kenya
Email: estherwangethi@yahoo.com

DOI: 10.6007/IJARBSS/v5-i3/1534 URL: http://dx.doi.org/10.6007/IJARBSS/v5-i3/1534

Abstract
The purpose of the study was to investigate the relationship between outsourcing and operational performance of Kenya's energy sector, with specific reference to Kenya Power. Specifically the study sought to determine the relationship between the key outsourced services, that is, administrative support outsourcing, finance outsourcing, resourcing outsourcing and technical outsourcing and operational performance. The specific objectives were to investigate whether outsourcing some functions individually and collectively influence operational performance of Kenya's energy sector. The research design used for this study was descriptive case study design. The study used both primary and secondary data. Primary data was collected through a structured questionnaire with questions anchored on a five (5) point likert type ranking scale and secondary data was collected from published annual reports and financial statements. Data was analyzed mainly by use of descriptive and inferential statistics. Descriptive statistics included frequencies, line charts and percentages. Correlation analysis was the main inferential statistics technique adopted. The findings indicated that there has been improvement in profitability over the years with the financial year between July 2008 and June 2009 reporting the highest increase in profits of 75% which was linked to outsourcing. Connection of new customers to the national grid has maintained a steady growth with the financial year between July 2009 and June 2010 registering the highest growth of 16%. The study findings revealed that outsourcing of services at Kenya Power had led to reduced operational costs and had also resulted in operational efficiency. The study concludes that there was a positive and significant relationship between administration, financial, resourcing and technical outsourcing services with operational performance. This has leads to effectiveness in service delivery, promotes efficiency and effective allocation of resources in addressing customer needs. The study recommends that, the management should keenly

monitor the sources of their contractors' products so as to have an overall picture about the service delivery process. This will ensure that the vendors do not use low quality materials or workmanship which might lead to low quality services to the customers leading to losses.
Key words: Outsourcing, Relationship, Operational Performance

Introduction

Outsourcing, as an operating strategy, has become very popular with companies as firm's redirect valuable internal skills and capabilities to high value adding activities (Venkatraman, 1997). It allows firms to leverage on third party service provider and its expertise in the field to perform non-core activities and concentrate on core activities. Treadway (2002) argues that utilities have no option but to outsource some of their activities as profit margin gets thinner in a challenging business environment.

A firm's operational performance is a measure of how well a firm uses its assets from its core operations and generates revenues over a given period of time. This measure is thus compared to some given industrial average standard of similar firms in the same industry. Jiang, Frazier and Prater (2006) derived a set of performance metrics to study outsourcing; they group the firm performance metrics into three categories: cost reduction, productivity and profitability. The purpose of these metrics is to provide a comprehensive view of the financial characteristics of the firm at the time of outsourcing. Cost reduction remains the primary explanation for outsourcing. Firms evaluate outsourcing to determine whether current operating costs can be reduced and if saved resources can be reinvested in more competitive processes. Some researchers contend that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver (Anderson & Weitz, 1986; Roodhooft & Warlop, 1999).

The second explanation of outsourcing is profitability, traditionally, when business is booming, the temptation is to hire more staff, expand facilities, and bring more of the business "in-house," where firms hope to better control costs. However, today's knowledge and service-based economies offer innumerable opportunities for well-run companies to increase profits through outsourcing (Jiang, Frazier & Prater, 2006). The third explanation of outsourcing is productivity; several studies seek to explain the relationship between productivity growth and outsourcing. Abraham and Taylor (1996) find that firms "contract out" services with the objectives of smoothing production cycles and benefiting from specialization. Ten Raa and Wolff (2001) find a positive association between the rate of outsourcing and productivity growth. Efficient firms allocate their resources to activities for which they enjoy comparative advantage.

Statement of the problem

Although Kenya Power still remains a monopoly in distribution of electricity in Kenya, the environment under which it is operating in is rapidly changing forcing the company to adopt the latest sourcing strategies that is driving the business sector (Lafferty & Roan, 2012). Its previous outsourcing strategies led to difficulties in maintaining service consistency, and as a result culminated in increased complaints from the customers. Kenya power statistics indicate an increase in customer complaints over the years impacted upon by the fact that in this company, there are no structured approaches to adopting outsourcing as the strategy of the day, or measures to determine the extent of the degradation of service levels to the customers (Kinyua, 2010).

Objectives of the study

The objectives of the study were:-

1. To determine the relationship between administrative support outsourcing services and operational performance at Kenya Power.
2. To establish the relationship between financial outsourcing services and operational performance at Kenya Power.
3. To find out the relationship between resourcing outsourcing services and operational performance at Kenya Power.
4. To evaluate the relationship between technical outsourcing services and operational performance at Kenya Power.

Research Questions

The study sought to answer the following research questions:-

1. What is the relationship between administrative support outsourcing services and operational performance at Kenya Power?
2. What is the relationship between financial outsourcing services and operational performance at Kenya Power?
3. What is the relationship between resourcing outsourcing services and operational performance at Kenya Power?
4. What is the relationship between technical outsourcing services and operational performance at Kenya Power?

Literature Review

Theoretical Framework

Theoretical framework provides a general representation of relationships between things in a given phenomenon. In an attempt to explain the relationship between outsourcing and operational performance, the theoretical framework for this study dealt with theories relevant to outsourcing, namely resource based (RB) theory and transaction cost (TC) theory. The resource-based view (RBV) is an economic tool used to determine the strategic resources available to a firm. The fundamental principle of the RBV is that, the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Rumelt, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf, 1993). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Hoopes *et al*., 2003). The resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities (Kakabadse & Kakabadse, 2000).

Transaction cost has been the most utilized theory of outsourcing. Transaction cost theory is perceived to provide the best decision tool to help organizations to decide to outsource and prepare themselves for forthcoming outsourcing arrangements. Williamson (1981) suggests that transactions are the basic unit of organizational analysis, involving a contract to transfer goods or services from one party to another. Outsourcing is a decision worth analyzing only when the transaction is frequent and ongoing because of the inefficiencies associated with conducting infrequent transactions that require substantial investments in human and financial capital in-house (Williamson, 1981). In a broader sense, transaction costs can be considered as the "costs of running the economic system". Economizing on costs is central to transaction cost theory (Williamson, 1981). The links of strategic outsourcing often bring the company significant benefits such as economy of scale, qualified work force, high level of R&D activities and higher additional value for lower total costs which ensures the profits for all outsourcing partners working together in an alliance (Zineldin & Bredenlow, 2003). Working in net, companies can become market leaders in shorter time, increase their flexibility and cost efficiency (Nieminen & Takala, 2006). The transaction cost approach offers an analytical framework in comparing outsourcing services and in-house services (Lacity & Hirschheim, 1993). Wang (2002) confirms that transaction cost theory assist in predicting outsourcing success in terms of economic benefits.

Empirical Review

Muhammad and Zhan (2013) in their study on the relationship between core and non-core activities outsourcing and integrated firm-level performance showed that a positive relationship between outsourcing of non-core activities have a positive impact on a firm's performance. The findings also demonstrated that outsourcing enhances the economic, social and strategic performances of manufacturing firms, which enabled them to thrive in volatile business environment. According to a research by Khakia and Rashidib (2012) investigating outsourcing and its impact on operational objectives and performance found that outsourcing could lead to reduced cost, improved quality, increased flexibility, better financial and non-financial performance and services. Gilley, Greer and Rasheed (2002) in their study which analyzed the relationship between the outsourcing of human resource (HR) activities and firm performance, shed additional light on the relationship between outsourcing and firm performance by examining HR outsourcing practices and their influence on financial, innovation, and stakeholder performance measures using a sample of manufacturing firms. The results suggested that certain types of HR outsourcing activities do indeed have a significant, positive influence on firm performance. Specifically, the findings indicated that outsourced training has a positive effect on both innovation and stakeholder performance. In addition, payroll outsourcing was found to positively influence firm innovativeness.

Based on an analysis of 137 business process outsourcing (BPO) ventures at 254 German Banks in a period between 1994 and 2005, Fritsch and Wullenweber (2007) found that the outsourcer's financial performance in terms of profitability and cost efficiency was increased significantly compared to industry peers without BPO. The increase stems not from workforce reductions but rather from increased employee productivity. Further, they showed how BPO governance ensures BPO success: individually negotiated outsourcing contracts help to improve cost efficiency and profitability measures.

Research Design

The study adopted a descriptive case study design. Kenya Power was purposively selected from the electricity distribution and transmission energy subsector. The study population was all the employees of Kenya Power at the head office, who have been with the organization for a minimum period of one year. This was to ensure that they understand the firm and have gone through a one year cycle of performance contract. An updated list of all the employees in the head office obtained from the human resource department was used as the sampling frame. The study used simple random sampling to select the sample. The study used both primary and secondary data. Primary data was collected through a structured questionnaire with questions anchored on a five (5) point likert type ranking scale and secondary data was collected from published annual reports and financial statements. A pilot study was conducted in order to establish the validity and reliability of data collection instruments.

Research Findings and Discussion

Response Rate

The number of questionnaires administered to all the respondents was 150. A total of 113 questionnaires were properly filled and returned from Kenya Power employees. This represented an overall successful response rate of 75%.

Figure 1, 2 and 3 presents the characteristics of secondary data performance analysis for Kenya Power for a five year period. According to Kothari (2007), the purpose can be served if analysis can be worked out from the financial statements of a series of years, the period should at least be for three years. This research analyzed five financial years.

International Journal of Academic Research in Business and Social Sciences
March 2015, Vol. 5, No. 3
ISSN: 2222-6990

Profitability

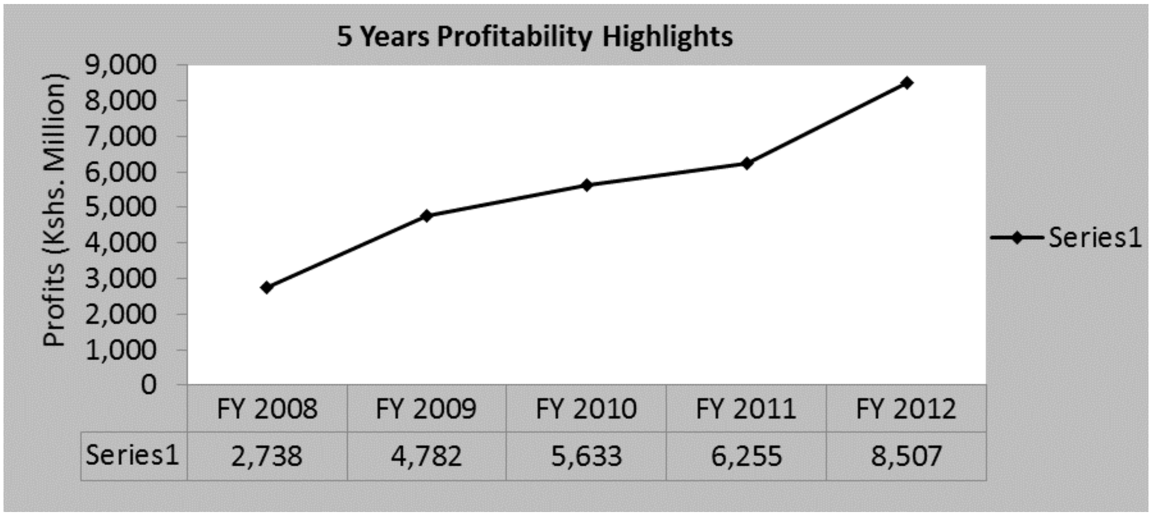
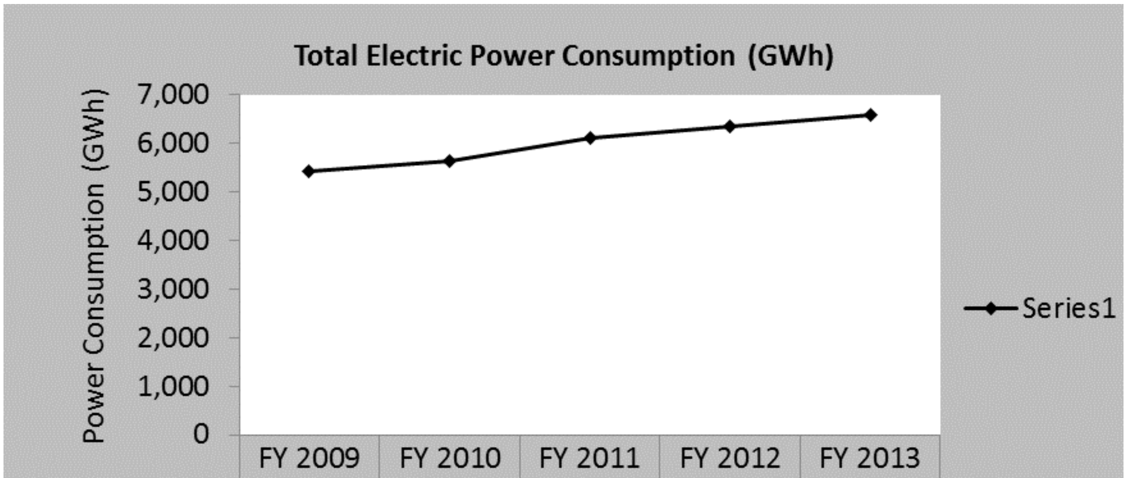


Figure 1: Profitability
Source: Kenya Power Annual Results and Financial Statements (2008-2012)

Figure 1, show that between 2008 and 2009 gross profit rose by 2.044 billion Kenya shillings which is equivalent to 75%, between 2009 and 2010 gross profits increased by 851 million Kenya shillings which is equivalent to 18% jump in gross profits. Between 2010 and 2011 rise in profitability was moderate at 11% which is equivalent to 622 million shillings. Finally in the last year of profit analysis (2011 to 2012), there was a huge jump in profitability of 36% equivalent to 2.252 billion shillings. The findings agree with those of Muhammad and Zhan (2013) on the relationship between core and non-core activities outsourcing and integrated firm-level performance showed that a positive relationship between outsourcing of non-core activities have a positive impact on a firm's performance. The findings also agree with those of Khakia and Rashidib (2012) who investigated outsourcing and its impact on operational objectives and performance and found that outsourcing could lead to better financial performance. Fritsch and Wullenweber (2007) found that the outsourcer's financial performance in terms of profitability and cost efficiency was increased significantly compared to industry peers without BPO (Business Process Outsourcing). The increase stems not from workforce reductions but rather from increased employee productivity.

Electric Power Consumption



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Series1	5,432	5,624	6,123	6,341	6,581

Figure 2: Power Consumption
Source: Kenya Power Annual Results and Financial Statements (2009-2013)

Figure 2 indicates there has been gradual growth in power consumption attributed to enhanced power connection to new households and commercial establishments. Between the year 2009 and 2010 power consumption increased by 192 GWh (Giga-watts Hour) which translates to 4%. Between 2010 and 2011 consumption rose by 499 GWh which translates to 9%. Between 2011 and 2012 consumption rose by 4% (218GWh) and lastly between 2012 and 2013 consumption rose again by 4% (240 GWh).

Figure 3 below indicate there has been significant growth in number of customers connected to the national grid which is attributed to efficient and speedy workmanship from outsourced power connection contractors.

Customers Growth

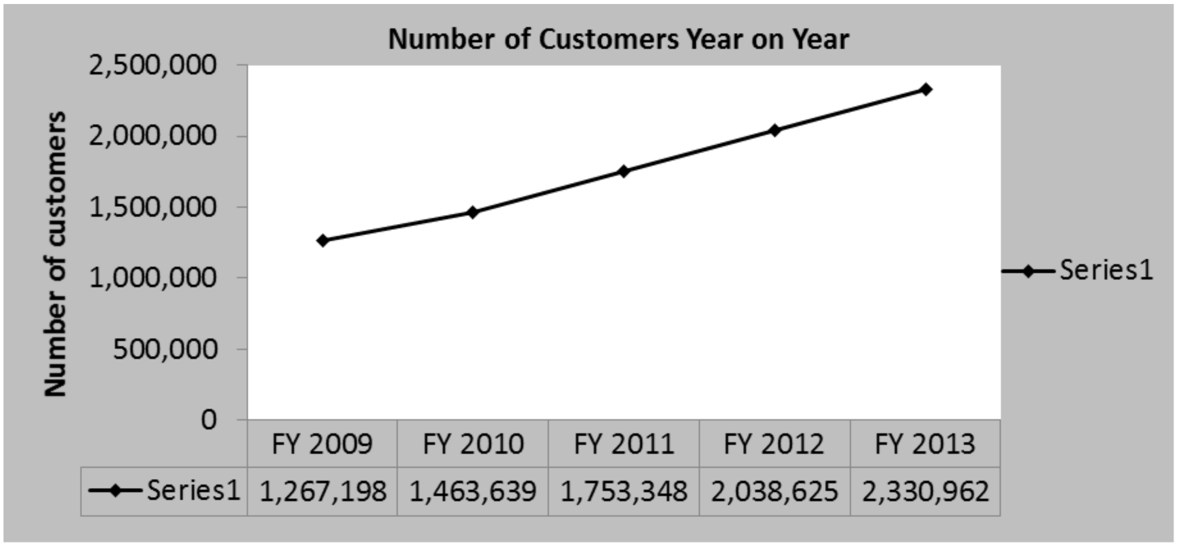


Figure 3: Customers Growth
Source: Kenya Power Annual Results and Financial Statements (2009-2013)

Between 2009 and 2010, one hundred and ninety six thousand four hundred and forty one (196,441) new connections were made which translates to 16%. Between 2010 and 2011 new connections were 289,709 which is an increase of 20%. Between 2011 and 2012 new connections were 285,277 which translate to a growth of 16%. Between 2012 and 2013 new connections were 292,337 which translate to a 14% rise in the number of new customers. These findings concur with MacPherson and Vanchan (2010) suggestion that independent design consultancies and other design service vendors contribute significantly to product development efforts of major corporations. They found that, the outsourcing of industrial design was driven primarily by the ability of external companies to offer innovative services that complement the core competencies of client firms.

Administration Support Outsourcing Services and Operational Performance

The first objective of the study was to determine the relationship between administrative support outsourcing services and operational performance at Kenya Power.

Table 1: Administration Support Outsourcing Services and Operational Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Likert Mean
In our organization cleaning services have been outsourced to reputable firms	5.3%	12.4%	8.0%	46.0%	28.3%	3.80
Since our organization started outsourcing cleaning services the administration costs have reduced	6.2%	17.7%	7.1%	30.1%	38.9%	3.78
Our organization resulted to outsourcing cleaning services due to lack of in-house expertise	0.9%	3.5%	5.3%	38.1%	52.2%	4.37
Due to outsourcing our organization is able to concentrate on its core business and therefore achieve improved customer satisfaction	1.8%	2.7%	3.5%	69.9%	22.1%	4.08
Outsourcing of cleaning services has helped our organization improve on company focus	1.8%	12.4%	2.7%	53.1%	30.1%	3.97
Due to outsourcing the our organization has as a result achieved use of modern technology in its cleaning services	3.5%	8.8%	3.5%	57.5%	26.5%	3.95
Average	**3.3%**	**9.6%**	**5.0%**	**49.1%**	**33.0%**	**3.99**

Table 1 shows that 74.3% of the respondents agreed that in their organizations cleaning services have been outsourced to reputable firms, 69% agreed that since their organization started outsourcing cleaning services the administration costs have reduced and 90.3% agreed that their organization resulted to outsourcing cleaning services due to lack of in-house expertise. Ninety two percent (92%) of the respondents agreed that due to outsourcing their organization was able to concentrate on its core business and therefore achieve improved customer satisfaction, 83.2% agreed that outsourcing of cleaning services has helped their organization improve on company focus and 84% agreed that due to outsourcing the organization has as a result achieved use of modern technology in its cleaning services. The mean score for this section was 3.99 which indicated that majority of the respondents agreed that administration support outsourcing services influence operational performance of the organization.

Financial Outsourcing Services and Operational Performance

The second objective of the study was to establish the relationship between financial outsourcing services and operational performance at Kenya Power.

Table 2: Financial Outsourcing Services and Operational Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Likert Mean
Our organization has contracted highly qualified auditors	5.3%	2.7%	6.2%	44.2%	41.6%	4.14
Our organization frequently engages qualified accountants to assist in preparing the books of accounts and auditing	0.9%	5.3%	8.0%	30.1%	55.8%	4.35
Our organization frequently engages qualified accountants to assist in putting in place financial and operational controls	3.5%	5.3%	5.3%	54.0%	31.9%	4.05
Our organization frequently engages qualified accountant to assist in computing tax returns	2.7%	1.8%	1.8%	51.3%	42.5%	4.29
Our organization contracts qualified accountant to assist in carrying out audits	1.8%	0.9%	2.7%	34.5%	60.2%	4.50
Outsourcing has helped this organization to be more efficient in auditing	0.0%	0.0%	3.5%	55.8%	40.7%	4.37
Average	**2.4%**	**2.7%**	**4.6%**	**45.0%**	**45.5%**	**4.28**

Table 2 illustrates that 85.8% of the respondents agreed that their organization had contracted highly qualified auditors, 85.9% agreed that their organization frequently engages qualified accountants to assist in preparing the books of accounts and auditing and 85.9% agreed that their organization frequently engages qualified accountants to assist in putting in place financial and operational controls. In addition, 93.8% of the respondents agreed that their organization frequently engages qualified accountant to assist in computing tax returns, 94.7% agreed that their organization contracts qualified accountant to assist in carrying out audits and 96.5% agreed that outsourcing has helped their organization to be more efficient in auditing. The mean score for this section was 4.28 which indicated that majority of the respondents agreed that financial outsourcing services influence operational performance of the organization.

Resourcing Outsourcing Services and Operational Performance

The third objective of the study was to find out the relationship between resourcing outsourcing services and operational performance at Kenya Power.

Table 3: Resourcing Outsourcing Services and Operational Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Likert Mean
Outsourcing resourcing services to contracted companies has deployed qualified personnel in our organization	10.6%	3.5%	8.0%	43.4%	34.5%	3.88
In our organization recruitment of top positions is effectively done by a contracted company	8.8%	6.2%	10.6%	54.9%	19.5%	3.70
In our organization quality training services are offered by experienced and competent outsourced firms	4.4%	5.3%	5.3%	56.6%	28.3%	3.99
In our organization contracted resourcing firms regularly organize training seminars and workshops for the staffs	2.7%	8.0%	4.4%	60.2%	24.8%	3.96
In our organization contracted resourcing firms diligently carries out employees performance appraisal annually	8.8%	2.7%	7.1%	38.9%	42.5%	4.04
In our organization Employees get sufficient feedback or advice on areas in which they need to improve from the contracted resourcing firms	0.0%	6.2%	3.5%	47.8%	42.5%	4.27
Average	**5.9%**	**5.3%**	**6.5%**	**50.3%**	**32.0%**	**3.97**

Table 3 shows 77.9% of the respondents agreed that outsourcing resourcing services to contracted companies has deployed qualified personnel in the organization, 74.4% agreed that in their organization recruitment of top positions was effectively done by a contracted company and 84.9% agreed that in their organization quality training services are offered by experienced and competent outsourced firms. Furthermore, 85% of the respondents agreed that in their organization contracted resourcing firms regularly organize training seminars and workshops for the staffs, 81.4% agreed that in their organization contracted resourcing firms diligently carried out employees performance appraisal annually and 90.3% agreed that in their organization employees get sufficient feedback or advice on areas in which they need to improve from the contracted resourcing firms. The mean score for this section was 3.97 which indicated that majority of the respondents agreed that resourcing outsourcing services influence operational performance of the organization.

Technical Outsourcing Services and Operational Performance

The fourth and last objective of the study was to evaluate the relationship between technical outsourcing services and operational performance at Kenya Power.

Table 4: Technical Outsourcing Services and Operational Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Likert Mean
In prequalifying technical suppliers our organization employ transparency in the selection process	3.5%	5.3%	5.3%	35.4%	50.4%	4.24
Profitability in our organization has greatly improved as a result of outsourcing technical services	3.5%	3.5%	26.5%	24.8%	41.6%	3.97
Our organization maintain an effective information delivery with the suppliers of technical services	3.5%	6.2%	11.5%	26.5%	52.2%	4.18
When assessing the potential outsourcing services, our organization benchmarks to determine whether the company meets the criteria	4.4%	8.8%	19.5%	26.5%	40.7%	3.90
In selection of qualified contractors to carry out design work, our company follow a competitive procurement procedure	2.7%	15.9%	3.5%	11.5%	66.4%	4.23
In construction and maintenance of electricity lines our organization engages qualified third party companies to improve productivity	2.7%	0.0%	0.0%	62.8%	34.5%	4.27
Average	**3.4%**	**6.6%**	**11.1%**	**31.3%**	**47.6%**	**4.13**

Table 4 shows 85.8% of the respondents agreed that in prequalifying technical suppliers the organization employ transparency in the selection process, 66.4% agreed that profitability in the organization has greatly improved as a result of outsourcing technical services and 78.7% agreed that their organization maintain an effective information delivery with the suppliers of technical services. Sixty seven point two percent (67.2%) of the respondents agreed that when assessing the potential outsourcing services, their organization benchmarks to determine whether the company meets the criteria, 77.9% agreed that in selection of qualified contractors to carry out design work, their company follow a competitive procurement procedure and

97.3% agreed that in construction and maintenance of electricity lines their organization engages qualified third party companies to improve productivity. The mean score for this section was 4.13 which indicated that majority of the respondents agreed that technical outsourcing services influence operational performance of the organization.

Correlation Analysis for the Linear Relationship between Outsourcing and Operational Performance

Table 5: Correlation Analysis

		Operation Performance	Administration	Financial	Resourcing	Technical
Operation Performance	Pearson Correlation	1.00				
	Sig. (2-tailed)					
Administration	Pearson Correlation	.638**	1.00			
	Sig. (2-tailed)	0.000				
Financial	Pearson Correlation	.643**	.641**	1.00		
	Sig. (2-tailed)	0.000	0.000			
Resourcing	Pearson Correlation	.632**	.473**	.645**	1.00	
	Sig. (2-tailed)	0.000	0.000	0.000		
Technical	Pearson Correlation	.382**	.432**	.246**	0.138	1.00
	Sig. (2-tailed)	0.000	0.000	0.009	0.146	

** Correlation is significant at the 0.01 level (2-tailed).
Only correlation coefficient that were statistically significant were highlighted

The findings of the correlation analysis indicated that there was a significant and positive relationship between administrative support outsourcing services and operational performance, with a Pearson's correlation coefficient (r=0.638, p=0.000) significant at 0.01 level of significance as the correlation matrix indicates. The results shows that there was a positive and statistically significant relationship between financial outsourcing services and operational performance (r=0.643, p=0.000) at 0.01 level of significance. Further, the results indicate that there was a positive and statistically significant relationship between resourcing outsourcing services and operational performance (r=0.632, p=0.000) at 0.01 level of significance. Lastly the findings shows that there was a positive and statistically significant relationship between technical outsourcing services and operational performance (r=0.382, p=0.000) at 0.01 level of significance. This implies that an increase in administrative support outsourcing, financial outsourcing, resource outsourcing and technical outsourcing services is associated with an increase in operational performance.

The results also show that administrative support outsourcing is positively and significantly associated to financial outsourcing services (r=0.641, p=0.000), resource outsourcing services (r=0.473, p=0.000) and technical outsourcing services (r=0.432, p=0.000). Financial outsourcing services is positively and significantly associated with resource outsourcing services (r=0.645, p=0.000) and technical outsourcing services (r=0.246, p=0.009). Resource outsourcing services is positively and insignificantly associated with technical outsourcing services (r=0.138, p=0.146) at 0.01 level of significance.

Summary of the Findings

The financial performance metrics indicate that with proper outsourcing strategies and prudent financial management practices, the company recorded higher profit margins of up to 75%. While electric energy consumption and new customers connection to the national grid which are the metrics for measuring productivity at Kenya Power, the findings shows that consumption in Gigawatts-hour have increased year on year with percentages as high as 9%. New customers connected to the national grid have recorded substantial growth of up to 16%. Further the study findings indicated that administration support, financial, resourcing and technical outsourcing services influenced operational performance of the organization. This was evidenced by the responses and correlation results. According to the test of significance, since the calculated value (p=0.00) was less than the critical value (α=0.01), this implied that the data provided sufficient evidence that the outsourced services were positive and statistically significant with operational performance.

Conclusions

The research findings show that outsourcing of services at Kenya Power has led to reduced operational costs and has also resulted in operational efficiency which translates to increased profits. In conclusion, the study found out that outsourcing leads to effectiveness in service delivery, promotes efficiency, improves operational performance, allows effective allocation of resources in addressing customer needs, enables the organization to strategically procure services that serve the needs of the customers directly and aiding the company to focus on its cores competencies. The study recommends that, the management should keenly monitor the sources of their contractors' products/services so as to have an overall picture about the service delivery process. This will ensure that the vendors do not use low quality materials or workmanship which might lead to low quality services to the customers leading to losses. Since this study was a case study specifically on Kenya Power a replica of this study can be carried out with a further scope to include other state corporations and institutions and see whether the findings hold true. Future studies should also apply different research instruments like interview guide, focus group discussions to involve respondents in discussions in order to generate detailed information which would help in bringing out better strategies for outsourcing and performance of firms in Kenya.

Acknowledgement

My heartfelt thanks go to members of my family for their moral and financial support throughout my academic life. I am very grateful to my supervisor, Dr. Esther Waiganjo for her priceless guidance in the successful completion of this research. Finally, my sincere gratitude goes to my colleagues for their support and the staff of the College of Human Resource Development of Jomo Kenyatta University of Agriculture and Technology (JKUAT) for their assistance. God bless you all.

Corresponding Author

Esther Waiganjo, (Phd), Jomo Kenyatta University of Agriculture and Technology (JKUAT), P.O Box 62000 - 00200 Nairobi Kenya Email: estherwangethi@yahoo.com

References

Venkatraman, T. (1997). *Out or in source: which strategy*? Mumbai, India: Magnum Books.

Treadway, N. (2002). Distribution utility outsourcing. An unpublished article prepared for the DISCO of the future forum: A project of the centre for the advancement of energy markets, USA.

Anderson, J., & Weitz, B. (1986). Make-or-buy decisions: vertical integration and marketing productivity. *Sloan Management Review*, Spring, pp. 3-19.

Eisenhardt, K. M. (1985). Control: organizational and economic approaches. *Management Science*, Vol. 31, No. 2, pp. 134-149.

Fritsch, M., & Wullenweber, K. (2007). The impact of business process outsourcing on firm performance and the influence of governance: a long term study in the German Banking industry. Available at SSR: http://ssrn.com/abstract=1076422 or http://dx.doi.org/10.2139/ssrn.1076422.

Gilley, K.M., Greer, C.R., & Rasheed, A.A (2002). Human resource outsourcing and organizational performance in manufacturing firms. *Journal of Business Research*, Vol.5740, pp.1-9.

Jiang, B., Frazier, G.V., & Prater, E.L. (2006). Outsourcing effects on firms' operational performance: *International Journal of Operations & Production Management*, Vol. 26, No.12, pp. 1280-1300.

Kakabadse, A. & Kakabadse, N. (2000). Sourcing: new face to economies of scale and the emergence of new organizational forms. *Knowledge and Process Management*, Vol. 7, No. 2, pp. 107-18.

Khakia, A.R., & Rashidib, S. (2012). Outsourcing and its impact on operational objectives and performance: a study of Iranian telecommunication industries. *Management Science Letters*, Vol.2, pp.235-244.

Kinyua, J.K. (2010). Challenges of business process outsourcing at Kenya Power and Lighting Company Limited. *College of Humanities and Social Science.* University of Nairobi.

KPLC (2013). *The Kenya Power and Lighting Company Limited, Annual Report and Financial Statements*, www.kplc.co.ke

Lacity, M.C., & Hirschheim, R. (1993). The information systems outsourcing bandwagon, *Sloan Management Review*, Vol.35, No.1, pp.73-86.

Lafferty, G., & Roan, A. (2012). Public sector outsourcing: implications for training and skills. *Employee Relations,* Vol. 30 No. 2, pp. 106-145.

MacPherson, A., & Vanchan, V (2010). The outsourcing of industrial design services by large US manufacturing companies. *International Regional Science Review*, Vol.33, No.1, pp.3-30.

Muhammad, M., & Zhan, S (2013). Offshore outsourcing of core and non-core activities and integrated firm-level performance: an empirical analysis of Quebec manufacturing SMEs. *Management*, Vol.16, No.4, pp.454-478.

Nieminen, P., & Takala, J. (2006). Achieving better on-time-delivery performance with the help of international dependencies in the production. *International Journal of Management and Enterprise Development*, Vol. 3, No.1-2, pp.181-190.

Peteraf, M.A. (1993). The Cornerstones of competitive advantage: a resource-based view. *Strategic Management Journal,* 14, (3), pp. 179–191.

Rumelt, D.P. (1984). Towards a strategic theory of the firm: alternative theories of the firm; 2002, (2) pp. 286–300, Elgar Reference Collection. *International Library of Critical Writings in Economics*, Vol.154. Cheltenham, U.K. and Northampton, Mass.: Elgar; distributed by American International Distribution Corporation, Williston, Vt.

Ten Raa, T., & Wolff, E.N. (2001). Outsourcing of services and productivity recovery in US manufacturing in the 1980s. *Journal of Productivity Analysis*, Vol. 16, pp. 149-165.

Williamson, O.E (1981). The economics of organization: The transaction cost approach. *American Journal of Psychology*, Vol.8, pp.548-577.

Wang, E .T. (2002). Transaction attributes and software outsourcing success; an empirical investigation of transaction cost theory, *Information System Journal*, Vol.12, No.2, pp.153-81.

Abraham, K., & Taylor, T. (1996). Firms use of outside contractors: theory and evidence. *Journal of Labor Economics*, Vol. 14, pp. 394-424.

Roodhooft, F., & Warlop, F. (1999). On the role of sunk costs and asset specificity in outsourcing decisions: a research note. *Accounting, Organization and Society*, Vol. 24, pp. 363-369.

MacPherson, A., & Vanchan, V (2010). The outsourcing of industrial design services by large US manufacturing companies. *International Regional Science Review*, Vol.33, No.1, pp.3-30.

Zineldin, M., & Bredenlow, T. (2003). Strategic alliance: synergies and challenges. *International Journal of Physical Distribution*, Vol.33, No.5, pp.449-464.

Hoopes, D.G., Madsen, T.L., & Walker, G. (2003). Guest editors' introduction to the special issue: why is there a resource-based view? toward a theory of competitive heterogeneity. *Strategic Management Journal*, 24, pp. 889–902.