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Impact of Outsourcing Practices on the Financial Performance in Kenya Power Ltd

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Abstract

Purpose: The aim of the study was to assess the effectiveness of outsourcing practices on the financial performance of Kenya Power Limited.

Methodology: The study used descriptive survey design. The population of the study was 3200. The unit of analysis was the employees of the Kenya Power. The study applied stratified random sampling technique. A sample of 320 respondents was taken. The study utilised primary sources of information which were gathered by use of questionnaires containing close ended questions. Data was analysed using SPSS version 17. Data was presented in form of tables and figures.

Findings: The study findings indicated that strategic alignment was a key determinant of profitability. Therefore, organizational characteristics should be considered when deciding to outsource functions or activities. Based on findings it is possible to conclude that outsource vendors affect profitability. To improve the company's profitability it always wise to overlook the consequences to avoid lock in situations before coming to any agreement. Outsourcing risk management practise affects profitability. Since outsourcing introduces new challenges and risks the company reduces the power to conclude deal and therefore loses. Findings also led to the conclusion that trust building practice affects profitability. The relationship style consider affective factor in customer retention. If the relationship among the company and customer is exceeding the customer will gain trust.activities that are core to its business, retaining them and making noncore activities candidates for outsourcing.

Unique Contribution to Theory, Practice and Policy: The study was anchored on agency theory and outsourcing. The study recommended that companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes.

Keywords: *Outsourcing Strategies, Performance, Kenya Power Limited*

INTRODUCTION

Outsourcing is a concept that is becoming popular by day and is being adopted by most modern organizations as a way of doing business. Organizations use outsourcing as a strategic initiative to improve customer service, quality and reduce costs. Outsourcing can be a permanent or temporary arrangement to bridge a gap in staffing, to learn better quality techniques or improvement of faulty product design. As a result, outsourcing is the most recent management tool to emerge in response to demands for more efficient ways to address organizational competitiveness (Rasheed, 2009).

The decision to outsource is a strategic, not merely a procurement, decision. The organization that outsources is effectively reconfiguring its value chain by identifying those activities that are core to its business, retaining them and making noncore activities candidates for outsourcing (IT Governance Institute, 2005)

Kemibaro (2009) notes that outsourcing is the process of an organization or person contracting a company or person to do a particular function that is considered non-core. This implies that it`s in the interest of an organization to only handle core functions while the rest which are considered support functions can be given to other organizations or persons who can efficiently and effectively handle them. Outsourcing has also been defined as the strategic use of outside resources to perform activities that are usually handled by internal staff and resources (Elmuti, 2003).

Broadly speaking, outsourcing refers to the acquisition from outside the firm of inputs, services, or processes (Giustiniano, L., & Clarioni, G. (2013). Other scholars view outsourcing as an element of the overall firm's strategy, implying a decision by the firm not to make a service or product internally and instead purchase it externally (De Fontenay & Gans, 2008), while others focus on global sourcing and define outsourcing as the integration and coordination of production and marketing on a consolidated basis (Kotabe, M., Mol, M. J., & Murray, J. Y. (2011)).

The best practices in outsourcing include; identify an internal champion, structure change-management activities, establish a baseline of pre-project performance, customer-driven specifications, collect and validate property profile data, conduct local market capability analysis, out-tasking support, define performance measurement system, build in governance structures, define the real goals for the project, prepare RFP documents, use a performance-driven contract, conduct pre-bid conference, conduct site tours, manage pre-bid questions and communications (Cole, M. A., Elliott, R. J., & Okubo, T. (2014).

Swartz (2008) notes that best practices in outsourcing include establish clear objectives, get a compatible provider, don't go in short sighted, never confuse sales and delivery, change your attitude toward IT, get the communications right, expect to get what you pay for and stay on-site. Stecher (2013) notes that the best practices in outsourcing include being well informed, Seeking professional help, making Outsourcing as a lifestyle, a work style, a corporate culture, entrenchment of outsourcing in strategic plans, conducting research. Best practice in outsourcing practices include selecting a vendor, applying effective outsourcing strategy, managing risks, signing service level agreements. Selecting a vendor includes looking at critical factors, setting business expectations, relationship control, success and failure (Share, 2013).

Outsourcing Practice in Developed Economies

A survey conducted by European Central Bank in 2004 reveals that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services and flexibility. As with US studies, the European study also reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, country risk, reputational risk, loss of flexibility, loss of control and cultural/social problems. The outsourcing trend began in Australia in the early 1990s both with the Labor and Coalition Federal Governments which were pushed hard by IS/IT consultants and economic rationalists. Also in 1995, the Council of Australian Governments was formed to implement the National Competition Policy (NCP) and began to outsource many of their IS/IT functions. By the year 2000, more than half of the Australian outsourcing market was made up of public-sector organizations (Mendez, Mendoza and Pérez,2006) as the Australian Federal and state governments had already outsourced most of their IS/IT functions (Kakabadse and Kakabadse, 2000).

Pujals (2004) conducted a study on offshore outsourcing in the European Union financial services industry. Results of the study indicate that banking institutions may choose to outsource certain activities for various motives. Some of the motives cited are: cost reduction, access to new technology, focus on core activities, improvement of quality of services and greater flexibility. In addition, the study identified the following risks associated with outsourcing of financial services: loss of control over service, operational risks, loss of internal skills, loss of flexibility, cultural and social problems, technical constraints, decline in quality and competitive advantages.

Outsourcing Practice in Emerging Economies

India is one of the fastest growing economies in the world. It holds a staggering amount of more than one billion people, but only three million of these people are a part of the IT boom that is taking place. The documentary, "On the other side of outsourcing" shows the improvements and challenges brought on by globalization, information technologies, and outsourcing to India's rich, middle class and poor. It also emphasizes the need for a developing country like India to try to overcome the digital and social divide that is caused by the concentration of ICT's in mostly urban areas. "On the other side of outsourcing" begins with exploring the effects of outsourcing in Bangalore, India. The growing demand of computerized services has created a lot of job opportunities and brought money into India (Sanaa, 2013).

Malaysia's private sector and public sector organization deals a significant amount of IT outsourcing and the rising trend is very high. Even though the large amount of IT projects is high in the country, the level of success of these projects is less. Therefore the majority of the practical situation of IT outsourcing in Malaysia is not fully automated. In Malaysia, public sector outsourcing experience was started with Malaysia's strategic framework which was known as National IT Agenda (NITA) formulated in 1996 and the Multimedia Super Corridor (MSC). Before those Malaysian government's large-scale systems integration projects were for Malaysian Postal Office and Amanah Saham Nasional Berhad for Permodala Nasional Berhad (PNB). The new IT outsourcing projects include the Malaysian Smart Schools which were awarded to Telekom Malaysia Consortium, and the Generic Office Environment (GOE) project which was awarded to Electronic Data Services (EDS) Malaysia. The research based on figure 1 found that there is a positive relationship between IT outsourcing success with service quality, partnership quality and IT Outsourcing Arrangements (Koh, Ang and Straub, 2004).

Outsourcing Practice in African Economies

South Africa has a fairly well developed BPO industry, given its strong economy. The Industry in South Africa is largely domestic owing to the large businesses. When South Africa decided to start marketing itself as a potential outsourcing destination to Europe and the rest of the world, it had to put in place various incentives to attract such business. The public sector in South Africa has made a long-term commitment to the BPO sector, supported by the Office of the President. The South African government has identified the Business Process Outsourcing and Off-shoring (BPO&O) sector as one of the top three priority sectors to stimulate growth within its Accelerated Shared Growth Initiative. The sector is identified for its potential to attract investment and create employment opportunities in the economy. To realize this vision, the Department of Trade and Industry has introduced an incentive programme to attract investment in the sector. The incentive is offered to local and foreign investors establishing projects that aim primarily to serve offshore clients. (Waema, 2009)

Outsourcing in Kenya

Competitiveness, based on organizational capabilities and production strategies, may lead to quality, efficiency and flexibility in Kenyan manufacturing firms. The highly competitive environments along with customers' demands for tailored products and services has forced companies to continuously evaluate, improve and reengineer their logistics operations. These operations have a noticeable contribution in companies' efforts to meet customers' expectations. Their outcomes, such as place convenience, waiting time convenience, delivery time convenience, and after sales convenience, are easily visible and assessable by the final customer and consequently delineating its purchasing behaviour (Mulama, 2012).

Outsourcing practices have also been witnessed in the Kenyan banking sector. Barako and Gatere (2008) examined the outsourcing process in central bank of Kenya and their paper presents contemporary evidence of outsourcing practices of the Kenyan banking sector. A questionnaire was sent to forty commercial banks operating in Kenya. Descriptive analysis results indicate that Automated Teller Machine (ATM) services are the most outsourced function in the sector, while customer account processing is the least outsourced function. Banks associate outsourcing activities with high reputational, operational, strategic and contractual risks. Outsourcing benefits highlighted are: freeing of resources, cost reduction, access to specialized vendors, focus on core competence, flexibility and improved services. Results of logistic regression indicate that bank size measured as total asset is significantly associated with outsourcing decisions.

Outsourcing in the Energy Sector

Over the last 10 years, the electricity sector in eastern and southern African countries has been undergoing reforms targeted at restructuring the sector to improve performance (increase access to electricity, reduce technical and financial losses, etc.) and attract private sector investment. The changes have mainly been two-pronged, namely structural and ownership changes. The structural changes have concentrated on the functional unbundling of the utilities, while the ownership changes were mainly designed to increase private sector investment and involvement. One of the options of involving the local private sector - the focus of this study - would be to outsource some of the power utility activities / services to small and medium scale enterprises (SMEs). Greater involvement of SMEs would also strengthen local support for power sector reforms (AFREPREN, 2013).

The Energy sector, Government and local companies, notably banks should consider outsourcing some of their non-core jobs, such as data entry to local outsourcing companies. Therefore, the Government should recognise potential of BPOs in giving out its tenders. Kenya's vision 2030, a development blue print puts the sector at prime position to help attain middle-income economy dream. The sector, which has around 40 registered players with few operating, has, however, received little attention (Obura, 2013).

This has stagnated growth, as the country is yet to attract major jobs. Industry players reckon that despite the prevailing cheap bandwidth, a factor they have previously been cited as hindrance, the industry is still struggling to gain strong footing. Apart from poor marketing, they also cited slow progress in passing of crucial Bills, such as the Data Protection Bill and the lack of focused training that can help create competent personnel pool (Obura, 2013).

Outsourcing at Kenya Power

Kenya power was handling all it`s activities in-house prior to outsourcing which was initiated by world Bank after the company was found out to be performing poorly in terms of efficiency , profitability and customer service. The poor performance of Kenya power in the past is a reflection of the inefficiencies and poor customer service which lead to the following issues which ultimately impacted on the trading results: Low customer growth rate, black outs, Rationing of power and Default in payment of bills by customers (Okinyi, 2012).

Various functions within Kenya power which were initially handled by the staff were outsourced to other organizations and this comprises of the following: Design; This is the department that is charged with the responsibility of drawing the proposals for electricity network to the premises of customers who have applied for electricity and also costing the same. This entails visiting customer`s premises in order to succeed coming up with acceptable and realistic proposals. Wayleaves; this refers to acquisition of authority from private land owners for power lines to by- pass their land. This also entails physical visits to all the plots or parcels of land through which power will pass through and having the owners authorise by way of signing approval forms from Kenya power. In this case it`s only the land owners who should give such consent. Survey: This entails mapping out areas where electricity network is to be constructed on cadastral maps, drawing the line proposals and picking all the potential premises which require power. Construction; this is the department that does the actual construction of the power lines. One of the common characteristics of the above functions is that they are labour intensive which implied that a lot of manpower was required in order for the organisation to succeed in the same. However, due to staff establishment issues, the company were not initially able to succeed in this because, it could only engage up to a particular maximum number of employees per department. This is because the company is only able to handle a wage bill to a certain extent and hence outsourcing will help in reducing administrative costs (Kinyua, 2010).

Statement of the Problem

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets. Many large organizations have outsourced some or all of their functions. Factors like lower costs, improved productivity, higher quality, higher customer satisfaction, time to market and ability to focus on core areas are some of the benefits of outsourcing.

Kenya power was handling all its activities in-house and the company was found out to be performing poorly in terms of efficiency, profitability and customer service. The poor performance of Kenya power in the past is a reflection of lack of outsourcing which led to low customer growth rate, black outs, rationing of power and default in payment of bills by customers. What is so wrong that this study wishes to address is the poor outsourcing practices practiced by Kenya Power in the past. Upon improvement of outsourcing practices in the recent past, did the performance of Kenya Power improve?

Local studies have failed to address on the impact of outsourcing practices on the financial performance in Kenya Power LTD. The study of Smith (2012) also investigated outsourcing and supply chain performance among mobile telephone service provides in Kenya. However, he did not address the impact of outsourcing practices on the financial performance in Kenya Power LTD. Sang (2010) conducted a study on Outsourcing in Kenyan Universities However, he did not address the impact of outsourcing practices on the financial performance in Kenya Power LTD. Gachunga and Mwaniki (2013) conducted a study on Effects of outsourcing lifecycle models on inter-organizational outsourcing partnership performance in Kenya. However, they did not address the impact of outsourcing practices on the financial performance in Kenya Power LTD. Studies on effect of outsourcing have mixed results. Jiang and Qureshi (2006) note that most academic studies have focused on understanding outsourcing decision determinants and outsourcing process control while the results of outsourcing have not yet been well confirmed by existing research. Elmuti (2006) examined the human aspects of outsourcing activities and noted that outsourcing strategies had a negative impact on the perceived quality of work-life dimensions. Poppo & Zenger (2002) have concentrated on the factors affecting the performance of outsourcing contracts in developed and emerging economies. None of the studies identified focused on the impact of outsourcing practices on the financial performance of Kenya Power. This forms the research gap. It is for this research gap that this study wishes to establish the impact of outsourcing practices on the performance of Kenya Power Limited.

LITERATURE REVIEW

Theoretical Framework

Agency Theory and Outsourcing

The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen and Meckling, 1976), but had spread over the time on explaining the relationship between two inter-firm subjects. In that context we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem moral hazards and adverse selection (Arrow, 1985) should be resolved by monitoring and bonding (Barney and Hesterly, 1996). Consequently, the application of the theory in the outsourcing process research was in the Preparation Phase (when screening for vendors and defining its own attitude towards the type of the relationship. Naturally, the Managing relationship phase has also been explored, and to a very small extent the Reconsideration phase.

Jensen and Meckling shaped the work of Berle and Means in the context of the risk-sharing research popular in the 1960s and '70s to develop agency theory as a formal concept. Jensen and Meckling formed a school of thought arguing that corporations are structured to minimize the costs of getting agents to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with the same given goal will have different motivations, and that these different motivations can manifest in divergent ways. It states that there will always be partial goal conflict among parties, efficiency is inseparable from effectiveness, and information will always be somewhat asymmetric between principal and agent. The theory has been successfully applied to myriad disciplines including accounting, economics, politics, finance, marketing, and sociology (Nikkinen and Sahlström, 2004).

Empirical Review

Strategic Alignment of Outsourcing Practice and Financial Performance

Frayer et al. (2001) suggest that in order for an out-sourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they suggest that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance, and customer service.

Klaas et al. (2001) suggest that the influence of organizational characteristics was highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities outsourced. As such, it appears that many factors such as pay level, promotional opportunities and demand uncertainty should be considered when deciding to outsource functions or activities.

Outsourcing Vendor Selection Practice and Financial Performance

Another risk that management may face is referred as the lock-in risk (Gorla, Mei 2010). A lock-in situation often results from specific investments that were made by the supplier when the contract was first signed. At contract renewal time, if no other supplier is ready to make specific investments, the client does not have other alternatives but continue its relationship with the current supplier. The supplier can then increase its fees, because of this lack of alternatives. The lock-in situation may also occur in an industry where there are only a small number of suppliers. Since companies who have outsourced their IT have invested a great deal of time and effort and do not retain in-house competencies any more, they will have a huge loss if the contract fails (Bahli, Rivard, 2003).

Firms are increasingly viewing outsourcing strategies for reducing or controlling costs. Empirical research also suggests that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley *et al.,* 2004). It is commonly believed that vendors can give the same level of service at a lower cost than internal departments. In addition, outsourcing arrangements reduce the need for capital assets, and this reduced investment in firm’s capacity lowers fixed costs and leads to a lower break-even point (Gilley and Rasheed, 2000). Outsourcing not only results in a shift of profitability but also exacerbates the product.

Outsourcing Risk Management Practice and Financial Performance

Since outsourcing is not bad in itself and it only means that, as in other risky business ventures, risk assessment and risk management are the important contributors to the success of an IT outsourcing process (Aubert, Patry and Rivard 2001). The researches on IT outsourcing risk and risk management over the years were done by Aubert, Patry and Rivard (2001). When the risk is identified and cleared to manage, risk becomes a lot more manageable. It was proved that the organizations with a lot of resources, awarding larger contracts, would have more flexibility when managing their risk portfolio and more possibilities to reduce their risk factor.

Similarly, a survey conducted by European Central Bank in 2004 reveals that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility. As with US studies, the European study also reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, country risk, reputational risk, loss of flexibility, loss of control and cultural/social problems (Jurison, 2002)

Pavlou (2001) noted that potential risk reduces individual intentions to conclude a deal. It is apparent that the individual perception towards outsourcing could either be positive or negative. Negative perceptions of outsourcing are often equated with risks of outsourcing, that is, the possibility of outsourcing failure (Aubert, etal., 1998). On the contrary, there also exist outsourcing advantages, which may be summarized as outsourcing benefits (Dibbern, et al., 2004). In this paper, therefore, the risk-benefit framework is also applied to examine outsourcing decisions since the framework is in line with decision theory regarding decisions that involve risk or uncertainty

Tamura (2005) noted that in outsourcing research, the analytical framework of balance between costs versus risks is well documented for example. This suggests that in making outsourcing decisions university administrators assess all the perceived risks and benefits. These factors inform the final decision to outsource a function or not. Consistent with this theoretical framework, his paper argues that the decision to outsource is positively influenced by perceived benefits of outsourcing and negatively influenced by perceived risks of outsourcing.

Trust Building Practice on Financial Performance

Trust is an important factor in client relationships and among the key factors that have been identified as influencing trust are competence, benevolence, integrity, and effective communication (Wintoro, 2005). Marketing strategy and a long-term orientation are also positively correlated with customer commitment and trust, and relationship benefits are positively correlated with customer commitment (Adamson, Chan, & Handford, 2003). These associations have been attributed to the disposition of individuals to attach a primarily emotional value to social relationships that affect trust and to establish relationships for potential gain or risk avoidance (van de Bunt, Wittek, & de Klepper, 2005).

Simons and Peterson (2000) suggest, similarly, that trust moderates the relationship between task conflict and relationship conflict, concluding that trust is an important element in the process of realizing the benefits of task conflict without enduring the costs of relationship conflict. Zineldin and Jonsson (2000) argue that trust and commitment result from a successful relationship that features effective communication, ready adaptation, mutually embraced cooperation, and high levels of satisfaction. Positive actions support maintaining and improving collaborative relationships and motivating partners to work at preserving their relationship investments through cooperation.

Zineldin & Jonsson (2000) also notes that information sharing is affected by initial trust expectations, with the quantity shared partially mediating the relationship between trust expectations and the overall climate of trust. Butler also suggests that expectations are directly causally related to informational exchanges, and a climate of trust is related to the sharing of information, which in turn is related to overall effectiveness. In addition, the quantity of information shared is a key determinant of negotiating effectiveness, and the expectation of trust is an essential prerequisite for both the sharing of information and developing trust. The sharing of information and experience fosters trust, which leads to heightened levels of commitment and an improved atmosphere in which to conduct subsequent business activities (Zineldin & Jonsson, 2000).

Sirdeshmukh et al. (2002) suggests a tripartite view of trustworthiness that includes operational competence, operational benevolence, and problem-solving orientation, providing evidence that contingent asymmetric relationships affect consumer trust. Benevolence and image increase intimate disclosures by the consumer (Hansen, 2003) and trust is fostered through competence, predictability, reliability, and benevolence in a relationship (Ratnasingam, 2005). Daboub (2002) suggests that, in this modern environment where corporations are interconnected through strategic alliances and networks, mutual trust is necessary and can be established only through ethical conduct and benevolent behaviors. Ethical conduct is the foundation of a good reputation, and this is becoming increasingly important in an alliance-based and information-sensitive world. In an empirical study, Saxton (1997) found a positive relationship between reputation and outcomes (Daboub, 2002), supporting the hypothesis that a firm’s behavior and character are essential to business success.

The importance of trust has received some, albeit cursory, attention in the hotel outsourcing literature (Donada and Nogatchewsky 2009; Espino-Rodríguez and Padrón-Robaina, 2004, 2005a; Lam and Han, 2005; Lamminmaki, 2007). The following statement was developed to measure the extent to which trust affects the propensity for outsourcing in hotels: There are many activities that we do not outsource because it is difficult to find subcontractors that we can trust.

Trust and formal controls are both essential (Mao 2008; Sabherwal, 1999), and can serve as both complements and substitutes, in achieving better quality of service and working relationships. Effective collaboration between outsourcing partners requires alignment of both interests and behavioural actions (Mani *et al,* 2006). While formal controls attempt to align incentives and interests in providing an administrative architecture (Gulati & Singh 1998) within which an outsourcing partnership proceeds, trust addresses how the information exchange between the client and the vendor promotes a shared understanding of the project requirements and mutual adjustment to align actions to ensure success

Conceptual Framework

The existence of and adherence to better Strategic alignment, vendor practices, Risk management practices, and trust buildings are the independent variables. A change in these variables is expected to affect the dependent variable. The dependent variable is effectiveness

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of outsourcing. The independent variables are expected to have a positive relationship with financial performance.

Independent variable **Dependent Variables**

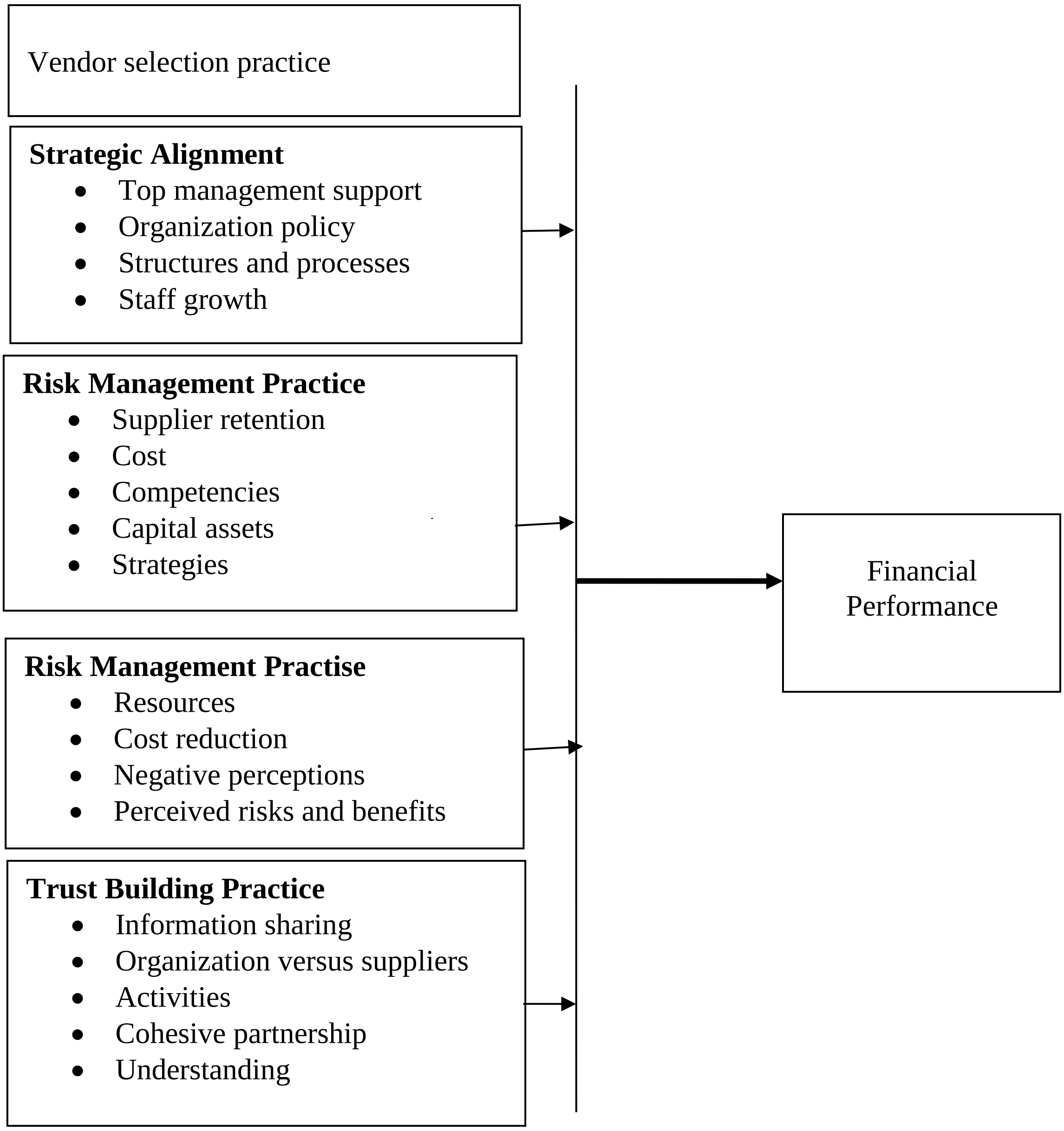

Figure 1: Conceptual Framework

Source: Author (2013)

METHODOLOGY

The study adopted a descriptive design. The target population in the study was be 3200 employees spread across three managerial levels (top, middle and lower management). The study adopted stratified random sampling technique. The target sample size is 320 employees. The study used primary data which was collected through use of questionnaire. Data was

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analysed using Statistical Package for Social Sciences (SPSS). Data was presented inform of tables and figures.

FINDINGS AND DISCUSSION

Response Rate

A successful response rate of 52 % (150 respondents out of possible 290) was obtained. The high response rate was achieved because of the follow up calls that were made in an effort to enhance the successful response rate.

Table 1: Response Rate

	Response	% Response
Successful	300	94%
Unsuccessful	20	6%
Total	**320**	**100%**

Sample Characteristics

This section contains descriptions of the respondents in terms of their gender, age and education.

Gender

The study attempted to establish the gender composition of the respondents in the manufacturing sector. Results in Table 2 revealed that majority (94%) were male while (6%) of the respondents were female. The findings indicate that the gender compositions of respondents in this sector were more skewed to males. The results are in Figure 1.

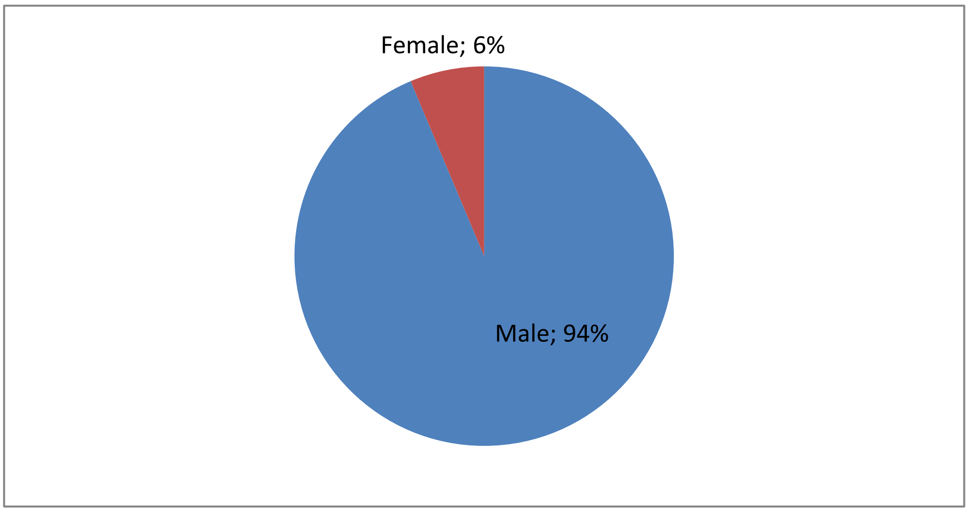

Figure 1: Gender

Level of Education

Majority (54%) of the respondents had attained university level education and another (37%) who had university level education. This implied that most people running the KPLC were educated.

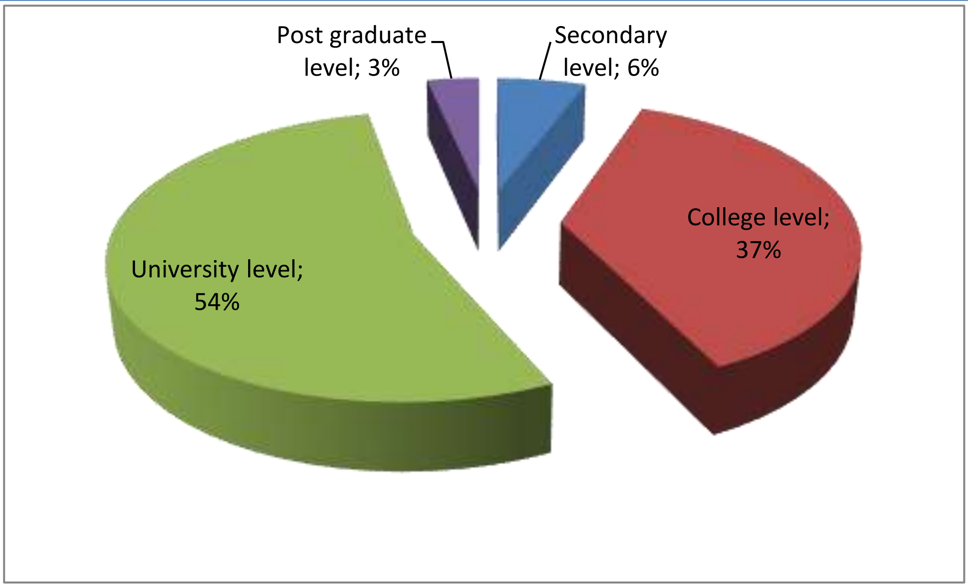

Figure 2: Level of Education

Age Distribution

The dominant age of the respondents was between 31 to 40 years who comprised 84%. This implies that the people working in KPLC are of middle age hence enough experience and knowledge.

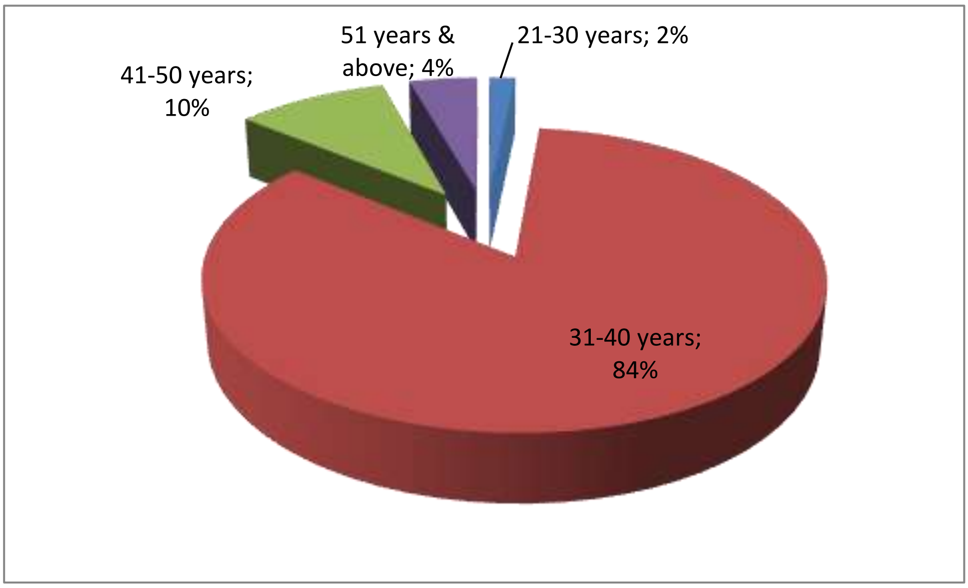

Figure 3: Age Distribution

Profitability

The study had one dependent variable (profitability) and four predictor variables. Table 2 displays results of responses regarding profitability. Seventy six point three percent (76.3%) of the study participants agreed to the statement that the gross revenue of Kenya Power had improved as a result of outsourcing. Sixty seven point seven(67.7%) felt that the net profit of Kenya Power had improved as a result of outsourcing.The respondents who amounted to sixty

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eight point seven (68.7%) agreed that the operation cost of Kenya Power had declined as a result of outsourcing. Sixty nine point seven percent (69.7%) agreed that the overall efficiency of Kenya Power had improved as a result of outsourcing and 73.3% agreed that the return to shareholder of Kenya Power has improved as a result of outsourcing.The mean score of the responses was 3.64 which mean that the respondents agreed with the statement on the questionnaire regarding profitability. The responses were spread within 1.03 standard deviation.

Table 2: Profitability

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std
The gross revenue of Kenya Power has improved as a result of outsourcing	5.0%	8.7%	1.3%	76.3%	8.7%	3.75	0.91
The net profit of Kenya Power has improved as a result of outsourcing	8.3%	12.3%	1.7%	67.7%	10.0%	3.59	1.09
The operation cost of Kenya Power has declined as a result of outsourcing	6.7%	15.0%	0.0%	68.7%	9.7%	3.6	1.07
The overall efficiency of Kenya Power has improved as a result of outsourcing	9.7%	11.0%	1.7%	69.7%	8.0%	3.55	1.1
The return to shareholder of Kenya Power has improved as a result of outsourcing	5.0%	11.7%	1.3%	73.3%	8.7%	3.69	0.96
Average	**6.9%**	**11.7%**	**1.2%**	**71.1%**	**9.0%**	**3.64**	**1.03**

Strategic Alignment

The first objective of the study was to establish whether strategic alignment influenced financial performance of Kenya power. Results on Table 3 show that 78.3% of the respondents felt that there was top management support for outsourcing strategies and 79.3% felt that the organization had entrenched outsourcing policy in the strategic plan. Seventy five point seven percent (75.7%) felt that that the organization had established global sourcing structures and processes, 78.7% agreed the organization considers pay level, promotional opportunities and demand uncertainty when formulating outsourcing strategies.Majority agreed with the statements on the questionnaire which was supported by a mean score of 3.86 and a standard deviation of 0.83.

The findings agree with those of Frayer et al. (2001) who suggested that in order for an out-sourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they suggest that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance, and customer service.

The findings are consistent with those of Klaas et al. (2001) who suggest that the influence of organizational characteristics was highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities outsourced. As such, it appears that many factors such as pay level, promotional opportunities and demand uncertainty should be considered when deciding to outsource functions or activities.

Table 3: Strategic Alignment

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std
There is top management support for outsourcing strategies	4.0%	10.3%	0.0%	78.3%	7.3%	3.75	0.89
The organization has entrenched outsourcing policy in the strategic plan	2.7%	6.7%	1.7%	79.3%	9.7%	3.87	0.78
The organization has established global sourcing structures and processes	3.0%	8.3%	0.3%	75.7%	12.7%	3.87	0.85
The organization considers pay level, promotional opportunities and demand uncertainty when formulating outsourcing strategies	3.3%	4.7%	0.3%	78.7%	13.0%	3.93	0.79
Average	**3.3%**	**7.5%**	**0.6%**	**78.0%**	**10.7%**	**3.86**	**0.83**

Outsourcing Vendor

The second objective of the study was to establish whether outsourcing vendor influenced financial performance of Kenya power. Results on Table 4 show that 78.3% of the respondents felt that the organization retains a specific or same supplier for the outsourcing activities and 61.7% felt that outsourcing suppliers/vendor give the same level of service at a lower costs than internal departments. Fifty seven percent (57.0%) felt that that the organization retained in house competences, 54.7% agreed the Outsourcing arrangements have reduced the need for capital assets and another 65% agreed with the statement that outsourcing strategies controls costs. This was supported by a mean score of 3.49 and a standard deviation of 1.17.

The findings agree with those of Mei (2010) who noted that another risk that management may face is referred as the lock-in risk A lock-in situation often results from specific investments that were made by the supplier when the contract was first signed. At contract renewal time, if no other supplier is ready to make specific investments, the client does not have other alternatives but continue its relationship with the current supplier. The supplier can then increase its fees, because of this lack of alternatives. The lock-in situation may also occur in an

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industry where there are only a small number of suppliers. Since companies who have outsourced their IT have invested a great deal of time and effort and do not retain in-house competencies any more, they will have a huge loss if the contract fails (Bahli, Rivard, 2003).

Table 4: Outsourcing Vendor

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std
The organization retains a specific or same supplier for the outsourcing activities	2.7%	8.7%	1.3%	73.3%	14.0%	3.87	0.85
Outsourcing suppliers/vendor give the same level of service at a lower costs than internal departments	16.3%	11.3%	0.0%	61.7%	10.7%	3.39	1.29
The organization retains in house competences	17.0%	16.0%	1.3%	57.0%	8.7%	3.24	1.31
Outsourcing arrangements have reduced the need for capital assets	17.3%	14.7%	1.3%	54.7%	12.0%	3.29	1.34
Outsourcing strategies controls costs	5.3%	14.0%	1.7%	65.0%	14.0%	3.68	1.05
Average	**11.7%**	**12.9%**	**1.1%**	**62.3%**	**11.9%**	**3.49**	**1.17**

Outsourcing Risk Management Practice

The third objective of the study was to establish whether outsourcing risk management practice influenced financial performance of Kenya power. Results on Table 5 show that 64% of the respondents felt that the organization had a lot of resources and awards larger contracts and 69.7% felt that the organization had benefited in cost reduction as a result of outsourcing. Seventy two point three percent (72.3%) felt that that the there were negative perceptions of outsourcing from individuals within the organization, and 83% agreed the organization accesses perceived risks and benefits before making outsourcing decisions. This was supported by a mean score of 3.74 and a standard deviation of 0.96.

The findings agree with those of Aubert, Patry and Rivard (2001) who asserted that since outsourcing is not bad in itself and it only means that, as in other risky business ventures, risk assessment and risk management are the important contributors to the success of an IT outsourcing process. The researches on IT outsourcing risk and risk management over the years were done by Aubert, Patry and Rivard (2001). When the risk is identified and cleared to manage, risk becomes a lot more manageable. It was proved that the organizations with a lot of resources, awarding larger contracts, would have more flexibility when managing their risk portfolio and more possibilities to reduce their risk factor.

The findings also agree with those of Jurison (2002) who found out that on a survey conducted by European Central Bank in 2004 revealed that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks.

The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility. As with US studies, the European study also reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, country risk, reputational risk, loss of flexibility, loss of control and cultural/social problems.

Table 5: Outsourcing Risk Management Practice

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std
The organization has a lot of resources and awards larger contracts	7.0%	12.0%	2.0%	64.0%	15.0%	3.68	1.09
The organization has benefited in cost reduction as a result of outsourcing	4.0%	13.0%	0.3%	69.7%	13.0%	3.75	0.98
There are negative perceptions of outsourcing from individuals within the organization.	7.0%	11.7%	0.3%	72.3%	8.7%	3.64	1.03
The organization accesses perceived risks and benefits before making outsourcing decisions	3.0%	5.0%	0.0%	83.0%	9.0%	3.9	0.74
Average	**5.3%**	**10.4%**	**0.7%**	**72.3%**	**11.4%**	**3.74**	**0.96**

Trust Building Practice

The fourth objective of the study was to establish whether trust building practice influenced financial performance of Kenya power. Results on Table 6 show that 79.3% of the respondents felt that there was developed trust and commitment through sharing information within the organization and 79.7% felt that there was positive relationship and mutual trust between the organization and its suppliers. Seventy two point seven percent (72.7%) felt that that the organization outsourced all its activities, and 81.7% agreed the organization and its outsourcing vendors align incentives, interests and behavioral actions to ensure a cohesive partnership while another 75.7% agreed with the statement that there was information exchange between the organization and the vendor that promotes understanding that aligned actions to ensure success. This was supported by a mean score of 3.83 and a standard deviation of 0.84 therefore, majority agreed and hence trust building practise influenced the financial performance of Kenya Power.

The findings are consistent with those of Zineldin & Jonsson (2000) who noted that information sharing is affected by initial trust expectations, with the quantity shared partially mediating the relationship between trust expectations and the overall climate of trust. Butler also suggests that expectations are directly causally related to informational exchanges, and a climate of trust is related to the sharing of information, which in turn is related to overall effectiveness. In addition, the quantity of information shared is a key determinant of negotiating effectiveness, and the expectation of trust is an essential prerequisite for both the sharing of information and developing trust. The sharing of information and experience fosters trust, which leads to heightened levels of commitment and an improved atmosphere in which to conduct subsequent business activities

The findings also agree with those of Mao (2008) who found out that trust and formal controls are both essential, and can serve as both complements and substitutes, in achieving better quality of service and working relationships. Effective collaboration between outsourcing partners requires alignment of both interests and behavioural actions (Mani *et al*, 2006). While formal controls attempt to align incentives and interests in providing an administrative architecture (Gulati & Singh 1998) within which an outsourcing partnership proceeds, trust addresses how the information exchange between the client and the vendor promotes a shared understanding of the project requirements and mutual adjustment to align actions to ensure success.

Table 6: Trust Building Practice

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std
There is developed trust and commitment through sharing information within the organization	3.7%	7.7%	0.0%	79.3%	9.3%	3.83	0.84
There is positive relationship and mutual trust between the organization and its suppliers	3.0%	8.3%	0.7%	79.7%	8.3%	3.82	0.81
The organization outsources all its activities	3.0%	11.3%	0.3%	72.7%	12.7%	3.81	0.9
The organization and its outsourcing vendors align incentives, interests and behavioral actions to ensure a cohesive partnership	3.0%	5.0%	0.0%	81.7%	10.3%	3.91	0.75
There is information exchange between the organization and the vendor that promotes understanding that aligns actions to ensure success	4.0%	9.3%	0.0%	75.7%	11.0%	3.8	0.9
Average	**3.3%**	**8.3%**	**0.2%**	**77.8%**	**10.3%**	**3.83**	**0.84**

Regression Analysis

The study employed multiple linear regression analysis in testing the influence of the predictor variables on the dependent variable. Table 7 shows the results for testing the robustness of the regression model. The results indicate that the regression model best fits in explaining profitability. This is supported by a composite strong and positive correlation of 0.980 and a coefficient of determination (R Square) of 0.960. This means that the predictor variables of the study can explain at least 96% of the variation in profitability. The standard error of estimate (0.17036) is negligible which shows that the sample is close representative of the study population.

Table 7: Regression Model Fitness

Indicator	Coefficient
R	0.980
R Square	0.960
Std. Error of the Estimate	0.17036

Table 8 shows the results on analysis of variance which indicate that the combined effect of the predictor variables is significant in explaining staff turnover with an F statistic of 1772.293 and a p value of 0.000

Table 8: Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	205.744	4	51.436	1772.293	0.000
Residual	8.562	295	0.029		
Total	**214.305**	**299**			

Table 9 displays the regression output of the predictor variables. Results indicate that all independent variables are statistically significant factors in influencing profitability of KPLC. The beta coefficient indicates the direction and degree of influence of the predictor variable on the dependent variable. For example, a beta coefficient of 0.289 of strategic alignment means that a unit change in strategic alignment causes or leads to a 0.289 positive unit change in profitability.

Table 9: Regression Coefficients

Variable	Beta	Std. Error	t	Sig.
Constant	0.091	0.006	15.16667	0.000
Strategic alignment	0.289	0.072	4.003	0.000
Outsourcing vendor	0.356	0.031	11.318	0.000
Outsourcing risk	0.696	0.069	10.144	0.000
Trust building	0.323	0.076	4.227	0.000

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

The first objective of the study was to establish the effect of strategic alignment on profitability. Data analysis revealed that strategic alignment was important in explaining profitability. This is supported by a p value 0.000 which means that strategic alignment is a statistically significant predictor of profitability.

The second objective established the effect of Outsourcing vendor on profitability of KPLC. Results from data analysis show that outsourcing vendor is important in determining profitability as demonstrated by a p value of 0.000 and a beta coefficient of 0.356. This implies that outsourcing vendor is a statistically significant predictor of profitability.

The third objective established the effect of Outsourcing risk on profitability. Results from data analysis show that outsourcing risk is important in determining profitability of KPLC as demonstrated by a p value of 0.000 and a beta coefficient of 0.696.

The fourth objective of the study was to establish the effect of trust building practice on profitability of KPLC. Data analysis revealed that trust building practice was important in explaining profitability. This is supported by a p value of 0.000 and a beta coefficient of 0.323which means that supervision is a statistically significant predictor of profitability.

Conclusion

Based on the findings of the study, the following conclusions are arrived at. Strategic alignment is a key determinant of profitability. Therefore, organizational characteristics should be considered when deciding to outsource functions or activities.

Based on findings it is possible to conclude that outsource vendors affect profitability. To improve the company's profitability it always wise to overlook the consequences to avoid lock in situations before coming to any agreement.

Outsourcing risk management practise affects profitability. Since outsourcing introduces new challenges and risks the company reduces the power to conclude deal and therefore loses.

Findings also led to the conclusion that trust building practice affects profitability. The relationship style consider affective factor in customer retention. If the relationship among the company and customer is exceeding the customer will gain trust.

Recommendations

The study recommends that companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes.

The study recommends that the government to encourage those large organizations to adopt outsources as it effectively reconfigure their value chain by identifying those activities that are core to its business, retaining them and making noncore activities candidates for outsourcing

Areas for Further Study

This study was not exhaustive by any means and therefore it is recommended that another study be conducted in Kenya Power LTD and include other variables like challenges affecting effectiveness of Kenya Power. The same study can be conducted in another sector to test whether the findings of this study will hold true in a different context.

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