FACTORS AFFECTING PERFORMANCE OF OUTSOURCING PRACTICE IN THE PUBLIC SECTOR IN KENYA.

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Abstract

The purpose of this paper is to determine the factors affecting the performance of outsourcing practice in the public sector in Kenya. The rapid growth of outsourcing has transformed the way public entities are managing their operations in providing services to the Kenyan citizen. This has brought considerable benefits as well as challenges. Outsourcing has been considered as one of the methods that public institutions utilize to strengthen their core competencies to ensure cost-effective management of resources. Outsourcing involves reviewing of functions and processes within an organization with a view of restructuring to enable an organization to focus on its key competencies.

The methodology of this paper takes the form of desktop research in which in depth literature review is done to examine the factors affecting the performance of outsourcing practice in the public sector in Kenya. The analysis is based on previously conducted research from books, relevant journals and articles.

The findings of this paper confirm that public entities that have successfully implemented the outsourcing strategy have experienced great benefits. Literature also confirms some challenges that public entities face in outsourcing services and how this affects effective service delivery to the Kenyan citizens.

The paper concludes that realizing a competitive advantage from outsourcing requires a strategic orientation. This can be done through strategic analysis, rigorous vendor selection, contract negotiation and proper contract management.

Key words: Outsourcing, Performance, Practice

Introduction

The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competences and capabilities (McIvor, 2008). 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 (Yang,Seongcheol, Changi and Jawon, 2007). Outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Elmuti, 2004). Outsourcing can also involve the transfer of both people and physical assets to the supplier (Chase , Shanker and Aquilano, 2010).

The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Elmuti, 2004). Outsourcing has become a part of many organizations' business model with people working interdependently with shared purpose across space, time and organizational boundaries using technology to communicate and collaborate. This practice is becoming increasingly common and driven by global competition, increased need for flexibility, access to global resources and substantial financial gains. Moreover, the internet and availability of electronic communication infrastructures makes this global distribution feasible to organize and manage.

The complexity of outsourcing operations assumes several dimensions, which all project managers should keep in mind while involved with these projects (Quelin and Duhamel 2003):_The number of stakeholders influenced by the outsourcing decision becomes more numerous than when the projects were primarily done in-house; the selection criteria are not limited to cost savings; contracts are becoming denser, as agreements become more sophisticated in terms of measurements procedures, financial management of transferred assets and re-in sourcing clauses;_Managing the transition involves shifting more complex interfaces between supplier and the outsourcing company; managing the relationship under more detailed service level agreements (SLAs) entails more complex operations in terms of control and performance reporting the strategic perspective would determine how to get and sustain a competitive advantage by acquiring the valued resources from outside.

Stevenson and Spring, (2007) perceive outsourcing as a growing aspect of supply chain management whilst Lyson and Farrington, (2006) perceives it as a management strategy by which non-core functions are transferred to specialist, efficient, external providers. The two attribute the development of outsourcing as a reaction to over diversifications of the 1970s and early 1980s. This over diversifications led many enterprises to review their core activities and concentrate on their core-competencies. Outsourcing goes beyond the mere common purchasing and consulting contracts because not only are the activities transferred, but also resources that make the activities occur. The resources include people, facilities, equipment, technology, and other assets. An entire function may be outsourced or some elements of an activity may be outsourced, with the rest of the activities being kept in-house. Identifying a function as a potential outsourcing target, and then breaking that function into its components, allows decision makers to determine which activities are strategic or critical and should remain in-house and which can be outsourced. Reasons why companies decide to outsource vary greatly.

Outsourcing may be used to gain competitive advantage and has been adopted widely. Companies are increasingly seeking outside firms to perform activities previously conducted in-house in order to achieve time, progress and cost advantage. The act of outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently (Jacobs, 2009).

The strategic value of an activity determines its capability as a source of competitive advantage. Barney, (1991) states that sustainable competitive advantage is a result of possessing immobile resources that permit clear product or service differentiation. However, not all resources have the potential to be a source of sustainable competitive advantage for the firm. Barney, (1991) also affirms that for a resource to have that potential, it must satisfy four conditions: be valuable, rare, imperfectly imitable and non-substitutable. Strategic resources that satisfy the conditions for being sources of competitive advantage are superior assets, organization capabilities and distinctive core competences (Prahalad & Hamel, 1990). Distinctive core capabilities are those processes that involve a combination of physical and human resources and which are later responsible for the organization’s tacit and explicit knowledge. (Espino, Pardon and Robaina, 2004).

1.2 Statement of the Problem

Price Water Coopers (2000) conducted a survey in the United States among America's fastest growing companies, the conclusion arrived at was that businesses that outsource were growing faster, were larger and made more profits than those that did not. The survey further revealed that, of the companies that outsourced, 70 percent claimed to save money and 25 percent had improved focus on core business. The goals of outsourcing often include reducing labor and overhead costs, maximizing profits, dominating a market, and gaining a competitive advantage. While this strategy looks quite promising, it is surprising to find that "more than one-fourth of outsourcing deals fail in the first year. According to Lacity and Willcocks (1998), success rate of IT outsourcing is only 56 per cent. Aron and Sing (2005) state that half of the organizations that shifted processes to external providers failed to generate the financial benefits they expected. PricewaterHouseCoopers (2005), noted that companies are outsourcing more and more while enjoying the benefits less and less and this was attributed to firms overestimating the profitability of the their outsourcing ventures by not taking into account very influential transaction costs which decrease or even outweigh the benefits.

Outsourcing projects are not always successful, whether they are local, regional or cross board. Within the United States, problems have developed between vendors and clients that have been likened to a failed marriage (Rath, 2001). Deloitte Consulting (2008) in their survey on the success of outsourcing concluded that almost seven out of ten firms had negative experiences with outsourcing projects; one quarter of the firms brought the outsourced activity back in-house; 62% found that outsourcing required more effort than anticipated; and 48% did not have standardized methodologies. Deloitte also noted that several large firms that had outsourced somewhat hastily later discovered not only that they had failed to achieve the expected cost savings but also that outsourcing was claiming an inordinate amount of management time and attention.

Several researchers have looked at the concept of outsourcing in Kenya, for instance, Kinyua (2000) concluded that companies need to conduct careful analysis before engaging in outsourcing to minimize risks. In addition, Kirui (2001) concludes in his study that outsourcing of non-core logistics activities is triggered by the need to eliminate duplication of roles, efforts, and the dysfunction existing within the organization. On other hand, Chanzu (2002) concluded that outsourcing is most prevalent in departments like human resource, finance, and information technology. Public entities in Kenya are governed by the Public Procurement and Disposal Act (2005) which emphasizes the need to subject outsourcing contracts to a competitive process; this is a major factor which leads to ineffective performance of outsourcing contracts due to interferences both from internal and external forces. In addition, lack of expertise to manage outsourcing contracts by public entities is a major impediment in managing performance of outsourcing contracts.

2.0 Literature Review

2.1 Conceptual Framework

The conceptual framework is developed from the outsourcing frameworks developed by Johnson (1997), Greaver (1998), Lonsdale and Covx (1998), Jensen and Heinzi, (2001) and Momme (2001) as discussed by Busi and Ball (2006).

Table 2.1Outsourcing Frameworks

Johnson (1997)	**Greaver (1998)**	**Lonsdale & Covx (1998)**	**Jensen & Heinzi, (2001)**	**Momme (2001)**
Strategic Analysis	Planning initiatives	Assessment of critically of business activities	Deciding on the company strategy	Competence Analysis
-	Exploring strategic implication	-	Describing the outsourcing project	-
Identifying best candidates	Analysis costs/performance	Assessment of supply market	House cleaning	Assessment & approval
Defining requirements	-	-	Defining the different production tasks	-
-	-	Selection of appropriate types of suppliers relationship	Designing the network	-
Selecting providers	Selecting providers	Supplier selection	Selecting the partners	-
Selecting operations	-	-	-	-
-	Negotiating terms	-	Framing the internal network structure	Contract negotiation
-	Transitioning resources	-	Implementation	Managing Relationships
Managing relationships	Managing relationships	Supplier Management	-	Managing Relationships
-	-	Re-tender or return in house	Continuous adjustment	Contract termination

Source: Busi and Ball, (2006)

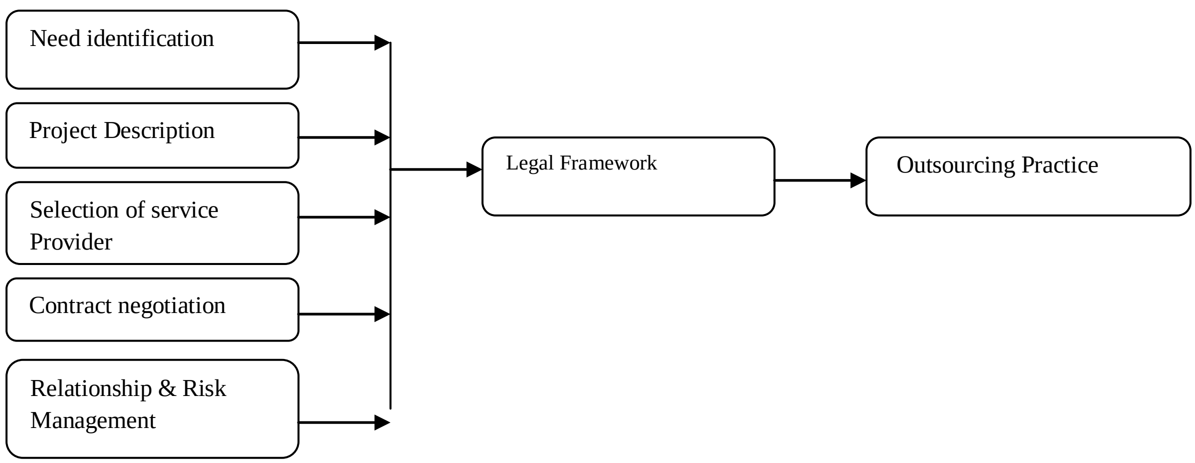
Johnson (1997), Greaver (1998), Lonsdale and Covx (1998), Jensen and Heinzi, (2001) and Momme (2001) agree that it is critical to carry out an analysis of the business and environment to identify the need for outsourcing. The need will set the framework and the priority for project and activities. Core competency should be identified and should not be outsourced. Accordingly, Frannceschini et al.,(2003) have agreed with the above authors that business strategic analysis should be the first step in the outsourcing process.

Johnson (1997), Greaver (1998), Lonsdale and Covx (1998), Jensen and Heinzi, (2001) and Momme (2001) identify the need to carry out a rigorous supplier selection process to ensure the right candidate is awarded the contract for the provision of the service or delivery of the project. Requirements for selection should be clearly communicated through request for proposal (RFP), so that the initial responses of the vendors provide full and clear picture of their ability to meet the needs of the organizations. The vendor evaluation team should include key staff from senior management, legal staff with contract expertise, technical staff, financial staff and end users. After careful selection of the vendor, the next stage is contract negotiation where three of the above authors agree that the firm outsourcing should set clear key performance indicators on customer service that will be measured in customer terms, budget performance, and savings and so on. The next key stage of outsourcing is contract management. This entails relationship and risk management. Risk will have to be identified and mitigated for the service provider to be able to deliver. The transition should be managed careful by a cross functional team drawn from all the departments of the organization.

In developing the conceptual framework, consideration was also made of the procurement cycle as developed by the Public Procurement Oversight Authority, (2009) and by the department of information resources, Austin, Texas (2006). The steps of the procurement cycle in summary are: (1) Need identification (strategic analysis) (2) Preparation of specification; project description (3) Identification of procurement method (4) Evaluation and selection of supplier (5) Award of contract – contract negotiation (6) Contract management – relationship and risk manage

Study used outsourcing practices as the dependent variable, legal framework as the moderating variable and outsourcing performance elements as independent variables as illustrated below:

Independent Variables **Moderating Variable** **Dependent Variable**



Conceptual Framework between outsourcing practices, Legal framework and outsourcing performance elements

2.2 The Concept of Outsourcing

Bauer (1967) explains that the risk theory analyses the risk a person subjectively associates with the consequences of a decision and impact of that decision on the intention to complete a transaction. This theory is based on the fact that as long as the perceived benefits outweigh the perceived risks, the person in charge will have a positive attitude towards a particular decision. Within the decision theory framework, the concept of risk-benefit analysis compares the risks associated with and the benefits expected of a decision that is made, in order to achieve an optimal result. When the concept is applied to outsourcing, it means that the decision maker has to assess all the potential risks and benefits that may arise from the outsourcing process before deciding whether or not to outsource.

According to Pavlov (2001), the 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, Party and Rivard, 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).

Other influential theories in the study of outsourcing have been transaction cost economics (TCE) and the resource based view (RBV) of the firm. According to transaction cost economics, a company will make the outsourcing decision on the basis of reducing production and transaction costs. Resource-based view which views the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage (McIvor, 2008). TCE theory indicates that firms outsource production in order to reduce costs and to achieve cost efficiency. Theory was developed by Williamson who identified two types of costs involved for any service i.e. production costs and coordination costs. Production cost is the cost incurred to make the product or to provide the service e.g. labor, material, and capital. Coordination costs include monitoring, controlling and managing the work internally. If the job is handed over to an external vendor, the coordination costs are called transaction costs. Williamson argues that externally outsourcing of services or production results in lower production costs than doing it internally due to economies of scale. But in such a case the transaction cost is high because vendors need to be managed and monitored.

The concept of core competences was developed on the basis of the resource-based theory (Prahalad and Hamel 1990). Authors argued that the core activities should remain in house. According to Levina and Ross (2003), vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement. The core premise of the resource based theory (RVB) is that resources and capability can vary significantly across firms, and that these differences can be stable (Barney and Hesterly,1996). The theory states that if resources and capabilities of a firm are mixed and deployed in a proper way, they can create a competitive advantage for the firm. This theory in outsourcing builds from a proposition that a firm that lacks valuable, rare, inimitable and organized resources and capabilities shall seek an external provider in order to overcome that weakness.

Rapid changes in the business environment require senior management to adopt strategies that focus on both current success and to invest in those activities that will promote a competitive advantage for future success. One widely recommended technique for improving one's competitive position is outsourcing. Many managers view outsourcing as the only way to keep a business competitive now and in future (Bolat and Yılmaz, 2009*)*. Outsourcing activities or services to external organizations is not a new phenomenon. Organizations have always had to take decisions about what they make and what they buy (Delmotte, 2008*)*. Outsourcing is made up of two words – 'out' and 'sourcing'. Sourcing refers to the act of transferring work, responsibilities and decision rights to someone else.

Outsourcing is the act of transferring the work to an external party. Whether or not to outsource is the decision of make or buy. Organizations are continuously faced with the decision of to expend resources to create an asset, resource, product or service internally or to buy it from an external party. If the organization chooses to buy, it is engaging in outsourcing. The transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offers a defined service for a specified period of time, at an agreed but probably qualified price' (Heywood, 2001). Outsourcing is a form of predetermined external provision with another enterprise for the delivery of goods and/or services that could previously have been offered in-house.

When organizations deal with outsourcing projects, clearly defined boundaries become instrumental to defining the "out." According to Boardman and Sauser (2008), the boundary separates the outside from the inside. Furthermore, boundaries also define the area of responsibility and the scope of interest, which is important for an outsourcing project, so there is no ambiguity about the responsibilities of the vendor and the client. Boundaries are unique for outsourcing projects because outsourcing occupies a unique position along the continuum of inside-outside relationships common to the operations of most businesses. Since outsourcing is by no means a perfect science, the boundary between what is sensible to outsource and what capability is better kept in-house is constantly being tested. In these circumstances, where outsourcing is a relatively new science and is nowhere close to being perfected, it is relatively easy to misjudge where the boundary should be drawn. In addition to knowing the boundaries of the outsourcing project, organizations should consider outsourcing as an arrangement in which they rely on intermediate markets to provide specialized capabilities as well as create value along their supply chain, and not just as a cost-saving technique (Holcomb and Hitt 2007).

2.2.1 Outsourcing and Organizational Performance

Because of resource limitations, few firms have the ability to apply world-class resources to all areas of competition. Thus, in order to gain competitive advantage they must select areas in which they will concentrate their resources (Hamel & Prahalad, 1994). By outsourcing to specialist organizations services not generated by core competences, companies can see an improvement in their organizational performance. Gilley and Rasheed, (2000) state that there are three reasons for this. Firstly, the acquisition of non-strategic services allows the organization to centre on what it really can do well, that is, on the services whose resources have a high strategic value. Such a focusing on services not included in the core competences can increase performance and allow the company to be more flexible. Secondly, increasing the outsourcing of nonstrategic services can improve both the quality and the service. Lastly, the outsourcing of services of low strategic value enables the company to reduce costs and improve its competitive position. Some research shows that companies that make alliances by trusting external sources have better results, reduce risks and improve the quality ratio while also increasing their capacity of innovation and flexibility (Espino-Rodriguez and Robaina 2004). Kotabe et al., (2008) propose a dynamic perspective, which suggests an inverted U relationship between outsourcing and performance.

2.3 Need Identification

According to Randall (1993), successful outsourcing requires identification of a strong need for outsourcing. Organizations undergoing rapid change due to changing internal and external environments are likely to benefit if they embrace outsourcing as an operational strategy to reduce operation costs. He adds that companies facing significant capital and headcount constraints are also likely to benefit by outsourcing expensive assets and personnel services. Before committing to outsourcing, companies need strong evidence that tangible benefits will be achieved. To quantify the benefits, a comprehensive feasibility study needs to be carried out to benchmark existing practices and identify the opportunities for improvement. Strategic assessments are business cases for the entire organization in terms of which areas are suitable for outsourcing and which are not.

According to Power (2006), defining the needs of an outsourcing project represents a seminal step in the outsourcing life cycle, as it is the statement of needs that gets transferred to the vendor, decides the outcomes of the efforts and sets the stage for evaluation of the outsourcing project. A disaster can occur due to expectation failures, such as expectation failures between the client and vendor due to lack of common understanding of needs, expectation failures between the product or service delivered and what was originally conceptualized and expectation failures between the stakeholders' expectations of the effort and what was delivered. For example, if the outsourcing project costs the organization more than it was costing when done in-house, there is a problem. The burden is on the client to state clearly the needs of the outsourcing project, as without this articulation confusion and ambiguity will plague the outsourcing relationship.

To be effective, needs definition must be conducted without undue influence from vendors. Buyer must be in-charge of defining own needs and getting them right. Vendors should not be allowed to define needs for the buyer for this will be dangerous and costly. Power, (2006) argue that buyers should not even talk to vendors before clearly articulating their needs and agreeing on them.

2.3.1 Reasons for Outsourcing

2.3.1.0 Focusing on Strategic Issues

Market forces are somehow driving firms to outsource everything but the core business (Gupta and Gupta, 1992). And outsourcing makes it easier for these firms to focus on their basic competences (Hayes, Hunton and Reck, 2000). Outsourcing lliberates line managers who do not have to coordinate with a large outsourced activity department, thus simplifying the organization.

2.3.1.1 Increasing Flexibility

Outsourcing additionally provides a large degree of flexibility in the utilization of resources and makes it easier to face business level volatility, as the provider is left to deal with fluctuations in outsourced activity workloads (Jurison, 1995).

2.3.1.2 Improve the Quality of Delivered Services

The provider can access more advanced technologies and count on more motivated staff and better management systems in order to be able to achieve a better service coordination or control, or, simply, is more strongly committed than the internal staff to make the alliance with the client work properly (Clark, Zmud and Mc Cray, 1995).

2.3.1.3 Get Rid of Routine Tasks

Outsourcing very often serves to provide routine tasks which are very time-consuming in management (Lacity & Hirschheim, 1993). Also, if the outsourced function is seen as something difficult to manage, often regarded by the top management as a 'headache,' outsourcing can remove or minimize a function that is considered clearly problematic (Jurison, 1995).

2.3.1.4 Facilitate Access to Technology

Outsourcing brings client firms advantages related to technology (Jurison, 1995), as these business organizations can have access to specialized, state of- the-art technology which is supposedly supplied to them by the provider. On the other hand, the efficient use of outsourcing will most probably reduce the need to make investments in mature technology, simultaneously increasing the availability of resources related to new technologies for the client (Clark et al., 1995).

2.3.1.5 Reduce the Risk of Obsolescence

It is precisely the fast pace of change in the field of technology that places firms in front of a dilemma: either making investments on new technologies very often or working with very mature technology. This problem can equally be minimized with technological outsourcing, since the technology accessed by the client is owned by the provider, which means that this risk is assumed by the latter and not by the former (Clark, et al., 1995). Firms can increase their level of flexibility through a process of continuous redesign of the contracts that will help them to cover their information requirements (Hayes, Hunton & Reck, 2000).

2.3.1.5 Save on Staff Costs

Outsourcing paves the way to a more specialized outsourced activity management, as the provider firm finds itself in a better position to select, train and manage its staff; in this way, clients can have at their disposal high-level specialists without them having to be permanent members of their staff (Alner, 2001). Clients have in mind a staff reduction which will mean significant cost savings. In these circumstances, the effort to retain a permanent workforce with a high-level, up-to-date training is likely to end up becoming too expensive for many companies (Olson, 2007).

2.4 Project Description

Since outsourcing represents a long term relationship with another firm, it is critical to define not only the desired results but also the type of relationship that can best serve the needs of the client and assist the provider in meeting those needs (Glagola, 2001). Defining requirements in clear, complete and measureable terms is one of the most difficult and most important parts of outsourcing process. For large projects Request for Proposal (RFP) outlines the requirements; for smaller less formal projects case studies or request for information (RFI) are typically used.

2.5 Selection of Service Provider

Soliciting, evaluating and choosing the vendor for outsourcing needs provides a structured framework to guide the organization through critical vendor selection and contracting activities. Choosing the right vendor is much like choosing a good partner; the chances are that if the organization make the right decision from the onset it will have a potentially lasting relationship, while choosing the wrong vendor could damage and thwart a well-intentioned outsourcing project (Power, 2006).

Evaluation criteria, selection process and the scoring system must be set by the cross functional project team. Only then can the firm ensure that confidentiality, accountability and objectivity will be maintained throughout the selection process. Vendor evaluation and selection process should be documented and followed strictly. Criteria should include the vendor experience and skill levels of its staff, background and experience in industry, the SLA it is expected to meet; its staffing plan and its cost control plan. Vendor response should include; a company profile including principal owners and the company's principal business, corporate goals, office location and service centers, financial statement reflecting stability and capability and previous experience related to the requirements of the project. The vendor should demonstrate existing technical and management expertise within its organization and include a response to each of the minimum qualifications identified in the request for proposal. Randall (1993) is of the opinion that credibility of suppliers is critical for the success of outsourcing process. The credibility is determined by experience in required services, proven track record on implementation and operating similar contracts, financial strength and a multiyear commitment to the contract.

2.6 Contract Negotiation

Service level agreements (SLAs) are put in place detailing process maps, responsibilities and implementation of key performance indicators. Structures and reporting lines are defined and implemented. Besides, in an outsourcing agreement, regulatory controls such as legal documents policies, form systems, standards and procedures may establish the relationship between the two parties and specify boundaries (Teng and Jaramillo, 2005) yet they represent only incomplete contracting and hence cannot be exhaustive. Interpersonal and informal infrastructures are required to solve ambiguities and make the outcome more predictable. Social or informal control is based on norms, shared values, internalization and beliefs (Eisenhardt, 1985). According to Power (2006), the SLAs should be clearly stated, easy to understand, easy to measure and based on firm's thorough benchmarking analysis. A common mistake made by organizations is to have ambiguous and incoherent SLAs that cannot be measured objectively. This makes them very difficult to implement and hence just useless. It is always a good idea to state the exact methods of computation for measuring the SLA so as to be clear. For instance, if an organization has an SLA that relates to the downtime of a system, it should be able to precisely state how it expects this downtime to be calculated – per month, per week or per day. The point is that these specifics need to be clearly stated so that they can be measured and evaluated. Another error is to have one SLA too many.

2.7 Relationship & Risk Management

According to Elmuti (2003), a good partner is important ingredient for success. Essentially in Outsourcing agreements, the relationship between the institutions and their partners are based on trust and on contracts. So it is essential that the right partners are selected based on criteria like credibility, expertise, and reliability. Barthelemy, (2003) observes that right partners will eventually lead to closer ties and relationships. Elmuti, (2003) further emphasizes the importance to get the right people involved in managing outsourcing efforts and add that adequate training, infrastructure and facilities are essential.

Benchmarking is most commonly employed in relationship management. Several organizations have to renegotiate contracts being signed. Usually dissatisfaction over pricing and service levels are the main drivers for renegotiations. Benchmarking plays a key role in renegotiations, since clients need access to industry performance parameters in order to make a case with outsourcing vendor (chase et al., 2010). In addition, management commitment must be sufficient to overcome the roadblocks that will undoubtedly emerge. Randall, (1993) recommend that for the outsourcing project to work there is need to have a senior manager who is committed to act as sponsor of the project and guide it from idea to reality. However, McCutcheon (1995) agree with Lutta (2003) and warns that if not well implemented, outsourcing could lead to an abdication situation instead of desired delegation of non-core activities to supplier-partner. McCutcheon (1995) further argues that the greatest danger in outsourcing is the attitude of getting rid of what a company does not like by subcontracting them out as opposed to the company outsourcing its non-core activities so as to enable it focus on its core activities. The result of the abdication process is a lack of process ownership, lack of accountability, and blame culture and eventually lose-lose situation for both parties.

Risks should be identified and mitigating factors put in place. Once this is done, contracts can be segmented into categories such as high, medium, or low risk and managed accordingly. High-risk contracts will be on a more continuous review cycle because they provide a mission-critical product or service or have a high shilling or transaction volume. Medium-risk contracts might be actively monitored and reviewed on a frequent but not continuous (perhaps quarterly) basis. Low-risk contracts may not be as actively monitored. Rather there might be a set of metrics that are tracked and review might be triggered by deviations to contracted service levels.

2.8 The Legal Framework

Outsourcing follows the procurement process as governed by the Public Procurement and Disposal Act (2005) and the Public Procurement and Disposal Regulation (2006). Procedures laid down in the Act and the Regulations are adhered to when sourcing for a service provider for outsourcing initiative. A legal contract must be signed between the two parties' i.e. public entity and the service provider clearly indicating the obligations and responsibilities of each part.

The Kenyan government's strategic plan 'vision 2030' has singled out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy. In the short run, the government aims at achieving a top three position as a Business Process Outsourcing destination in Africa. The government has taken key steps to ensure targets are met; budgetary allocation, setting up of complementary institutions like the Information Communication and Technology Board (ICT Board) that will ensure facilitation and implementation of desired targets.

3.0 Conclusions

There is need to incorporate the views of all stakeholders before deciding to outsource certain functions and processes in the organization. The public sector in Kenya needs to liaise closely with all partners in the organization in order to ensure that the outsourcing decisions are acceptable to all key players in the organization as opposed to making arbitrary decisions without any form of consultation. The procurement function has to take an active role in coordinating outsourcing decisions in the public sector in Kenya, since this is a strategic decision that will enable the organization to offer better service to the public.

The procurement entities in the Kenyan public sector have to ensure that they develop key performance indicators that will be used as a guide and point of reference in the execution of the outsourced service. To achieve this, key partners need to understand the expected service delivery objectives, targets, goals and expected outcomes that will be key in ensuring success in the outsourcing decisions. This will be done through developing service level agreements (SLA) by ensuring that the SLA incorporates the scope of services and that the service delivery clauses are mutually agreed upon and understood through signing of a formal contract.

Development supplier performance metrics in the outsourcing contract is key in ensuring successful execution of the contract and achievement organization objectives. This will be done through development timelines, work plans, performance parameters and reporting mechanisms prior to signing any outsourcing contract. It's important for public procurement entities in Kenya to put in place a reliable monitoring and reporting framework which should be used as a guideline of measuring supplier performance an also help in tracking the progress of the outsourcing decisions. The reporting mechanisms should not only be limited to the supplier only, but should also include the internal customers of the organization through designing metrics for assessing customer satisfaction with the service quality and capabilities provided by the vendor. This ensures that all stakeholders are continuously aware of the actual versus expected performance levels, risks and health of the relationship and can hence take appropriate corrective measures as required. When issues arise, they should be handled through structured frameworks laid out in the outsourcing contract to make sure that they can be resolved fairly and within the agreed timeframe.

The ever increasing dependency on outsourcing by public procurement entities has resulted in an increase in the number of suppliers and the need to conduct thorough supplier selection prior to engaging with the successful suppliers. The selection of suppliers is becoming an increasingly strategic decision. In the past, the selection of suppliers focused on price alone with little emphasis on quality of service. In today's business world, a supplier's internal processes, management of those processes, and business financing capacities have increased in importance because the suppliers are currently engaged in key processes and functions of an organization through outsourcing and also sharing the business risks with the procuring entity. Therefore, it's important for public procurement entities to select the most qualified suppliers through use of price, quality, delivery, flexibility, financial capabilities and past performance of outsourcing contracts as key evaluation parameters prior to selection and contract signing.

Risk management should be an important consideration in all outsourcing decisions, public procurement entities need to take into account the possible risks in the implementation of the outsourcing contract. Effective risk management should be conducted through ensuring that the right supplier is selected, analysis of the internal technical capacities in the organization in terms of managing the outsourcing contract with a view of providing training if the existing skills cannot effectively implement the contract. Caution has to be taken to ensure that the outsourcing decision does not compromise on the key competencies. It's important to develop a risk register to continuously track risks in the execution of the contract and be able to suggest corrective measures. The procuring entity should strive to ensure that the outsourced service will not lead to loss of control on existing customers through maintaining close contact with them.

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