

DETERMINANTS OF OUTSOURCING SERVICES AS A COST REDUCTION MEASURE IN DEVOLVED GOVERNMENT: A CASE STUDY OF NAIROBI CITY COUNTY, KENYA

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ABSTRACT

O utsourcing occur when organizations purchases products or services from external supplier instead of producing in-house. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers. Outsourcing is accredited with many benefits, but particularly the entire outsourcing process also requires proper management to ensure it is successful. The process from developing the business case, tendering and selecting a provider, to negotiating the deal, managing the relationship and dealing with the distributed process and contract management, the management needs to come up with a strategy to be followed by the both parties involved. Cost reduction is the most quoted reason for outsourcing which in turn it enables the both parties to attain the short-term objective of profit maximization. The aim of the study was to establish the effect of outsourcing services as a cost reduction measure in devolved government, through a case study of Nairobi City County. Stratified random sampling was adopted in order to establish a sample size of 37 respondents. Data was collected with the use of questionnaires that contained closed-ended questions and analyzed using Ms excel software. Descriptive statistics were done. It was found that Majority of the respondents agreed that outsourcing ICT led to reduced cost operations within Nairobi City County. Even though the organization has outsourced ICT, some of the organization activities were done manually. The organization should ensure they are much involved in the ICT department activities to be able to keep pace with the rapid change of technology internally.

Key Words: Outsourcing; Devolved government; Cost reduction; Technology

1.0 INTRODUCTION

1.1 Introduction

Outsourcing occur when organizations purchases products or services from external supplier instead of producing in-house. Greaver (1999) defines outsourcing as the act of transferring some of the company's recurring internal activities and decision rights to outside provider, as set forth in a contract. The main objective is to reduce cost. The decision to outsource is a critical and strategic on since the organizations have to weigh between the potential cost reduction and the cost of loss of control. In recent years, the number of companies that outsource critical business processes to outside suppliers has grown significantly worldwide. According to Gartener group the worldwide outsourcing market size was estimated to rise from \$21.3 billion in 1997 to \$59.6 billion by 2005 with an annual growth rate of 14% (Lee, 2001). According to a survey in 2006 the global business process outsourcing market was worth \$48.8 billion for the first three quarters of 2006. Outsourcing has become the focus of policy governing international commerce. For instance in US there is concern that even though outsourcing may give the US organization a competitive edge, it may have detrimental effect on labor. This make the effect of outsourcing ambiguous (Howard 2006).

Outsourcing is the process of replacement of in-house provided activities by subcontracting it out to external agents. Therefore, the management and development of innovations in outsourced activities become the responsibility of an agent external to the firm. (Vasiliauskienė, 2011) asserts that 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. The term outsourcing was introduced in 1980s even though hiring of personnel to perform a specific job existed from hundred years ago. It was originally driven by the desire to reduce costs in labor-intensive business processes, (Ekanayake and Fox, 2010).

In Kenya, from the national outlook both public and private organizations are evolving and shifting from providing non-core services to outsourcing them from the other organizations. Most firms in Kenya are outsourcing services such cleaning from other firms. Kenyan firms have also been in high gear to outsource transport services to transport and fleet management firms and they have also outsourced transport service of its employees to third parties (Kemibaro, 2009). Outsourcing is accredited with many benefits, but particularly the entire outsourcing process also requires proper management to ensure it is successful. The process from developing the business case, tendering and selecting a provider, to negotiating the deal, managing the relationship and dealing with the distributed process and contract management, the management needs to come up with a strategy to be followed by the both parties involved. Cost reduction is the most quoted reason for outsourcing which in turn it enables the both parties to attain the short-term objective of profit maximization.

1.2 Statement of the Problem

Outsourcing strategy has been credited with helping to cut cost, reduced capital expenditure, greater flexibility, access to talent and skills, access to the latest technology, improve capacity, improve quality, increase profitability and productivity, improve financial performance, lower innovation costs and risks, and improve organizational competitiveness (Deepen, 2007). On the other hand there are problems generated from outsourcing such as loss of core knowledge, increased cost, low morale, risk of exposing confidential information and hidden cost. Research done earlier have cast doubt on the effectiveness of outsourcing.

Some companies experience positive performance outcomes while others do not. (Earl 1996) assert that innovation is reduced in the organization because outsourcing does not favor it. Thus outsourcing does not have positive impact thus the organizations have to weigh the pro and cons before using this strategy.

This study thus seeks to establish the effect of outsourcing services as a cost reduction measure in devolved government, through a case study of Nairobi City County.

1.3 Purposes of the study

The general aim of the study was to establish the determinants of outsourcing services as a cost reduction measure in devolved government. The study was guided by the following specific objectives;

- i. To establish the effect of outsourcing cash handling on cost reduction in Nairobi City County.
- ii. To determine the effect of outsourcing garbage collection on cost reduction in Nairobi City County.
- iii. To assess the effect of outsourcing road maintenance on cost reduction in Nairobi City County.
- iv. To establish the effect of outsourcing ICT on cost reduction in Nairobi City County.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Resource Dependency Theory

The theory states that firms don't have all the resources they need therefore, to some degree, they depend on their external environment for resources (Pfeffer and Salanick 1978, Pfeffer 1984). The theory was originally developed to provide alternative perspective to economic theories of mergers and board interlocks, and to understand precisely the types of Return On Investments that have played such a large role in recent 'market failures' (Pfeffer 2003). There are three core ideas of the theory: organizations have strategies to enhance their autonomy and pursue interests, social context matters and power is important for understanding internal and external actions of organizations. Organizational depend on multi-dimensional resources like labor, capital and raw material. They may not able to come out with countervailing initiatives for all these multiple resources. Hence organizations should move through the principle of scarcity.

Pfeffer and Salanick (1978) come up three factors that influence the extent of dependency organizations have on certain resources. These factor include the criticality or the importance of the resource to the organization, the scarcity of the resource and the control the organization have on that resource. The strategic options of organization is determined by the environment according to this theory. Critical resources are those the organization must have to function. Recently the theory have been under scrutiny in review and meta-analytic studies: (Hillman et al 2009), (Davis and Cobb 2010) and (Sharif and Yeoh 2014). They all indicate and discuss the importance of this theory in explaining the actions of organizations by forming interlocks, alliances, joint ventures, mergers and acquisitions in striving to overcome dependences and improve an organizational autonomy and legitimacy.

2.1.2 Agency Theory

Agency theory originated in 1970s but the concept behind it had existed from years ago. Property-rights theories, organization economics, contract law and political philosophy led to emergency of this theory. Agency theory is concerned with the study of the problems that arise when one party, the principle delegates work to another party, agent (Eisenhardt, 1989: Lassar and Kerr 1996). The principal transfers decision rights to the agent. In order to ensure that the agent honors the terms of the contract the principal sets incentives. There are two major concerns in the agency relationship. First, the principal and the agent may have conflicting goals and second the principal may not be able to ascertain what the agent did (Eisenhardt, M, K. 1989).

Agency theory helps expose problems of divergent interests within both markets and hierarchies. A basic assumption of this theory is that opportunism is an inherent characteristic of principal agent relation. According to Benoit et al (2008), there are three main manifestations of opportunism: Moral hazard, adverse selection and imperfect commitment. Moral hazard fallouts from the fact that it is impossible for a principal to observe the behavior of the agent without incurring probative costs. Since the client cannot directly observe the level of effort deployed by its supplier, it cannot easily tell whether a problem is due to negligence on the part of its supplier or to an unforeseeable event. An example agency theory in outsourcing is the awarding of a contract where the organization awarding the contract is the principal while the contractor is the agent. Variables that influence the contract between the two is information systems, outcome uncertainty, goal conflict and relationship length (Eisenhardt, 1989).

2.1.3 Transaction cost theory

These theory explains why companies exist and why they expand. It also explains why organizations outsource activities from other organizations. The theory tries to explain how the organizations work on reducing cost thus they have to weigh between the cost of producing in-house and the cost of outsourcing. Transactions costs comprise the internal costs of searching and information, drafting and negotiating an agreement, and costs of safeguarding the agreement. The ex-post costs entail the costs of evaluating the input, measuring the output, and monitoring and enforcement (Williamson, 1985). Transaction costs are associated with the necessity of investments in durable, specific assets, frequency of transacting, uncertainty and complexity of a task, the ability to measure task performance and the dependency with other function as per the transaction theory (Gottshalk&Solli-Saether, 2006). The transaction costs are incurred each and every time a product or service is in transition from one stage to another. (Williamson 1981).

The transaction cost that arise from outsourcing include opportunism, environmental uncertainty, core company assets and bounded rationality (Simon, 1961). Williamson (1994) also state that transaction costs include the costs of seeking the suppliers, inspection of goods and establishing and formalizing the terms of agreement with the suppliers. According to Espino-Rodriguez and Gil-Padilla (2006) the greater the transaction costs, the less the possibility of outsourcing the activity.

2.2 Reasons for outsourcing

According to the Outsourcing Institute's Outsourcing index 2000 there are numerous reason why organization decide to outsource. These reasons include to gain access to expertise. The organization is able to access to exceptional expertise from the external resources which are not available internally. Organizations improves the company focus. Through outsourcing, organization is able to concentrate on its core activities giving the other organization to concentrate on theirs. Organization cannot be jack of every port. There is reduction and control of operating cost. The main reason for outsourcing is reduction of cost. The firm is able to reduce cost of staffing, training, health insurance, employment taxes and retirement plans.

The organization is able to access resources which are not available internally. If it is a manufacturing organization they can be able to access plant and equipment which the organization cannot be able to afford by that time. Internal resources are freed for other purposes. Some people in the organization do not concentrate on their area of expertise. Through outsourcing they will be able to handle exactly what they were hired to do. This can the organization to improve its productivity. The organization is able to maximize its restructuring benefit. When a firm is restructuring it needs to improve costs, quality, service, or speed, and non-core business functions may get pushed aside. They still need to be handled, however, and outsourcing is an optimal way to do this.

Organizations are able to outsource those functions that difficult to manage and control from the experts. In this way the organization is able to concentrate on their core competence without having to worry about other function. Capital funds are made available. Through outsourcing capital funds are saved which can be used to improve the products or services the organization produces mainly. For example capital saved from not buying production equipment. Organizations are able to reduce risk. Keeping up with technology required to run your business is expensive and time consuming. Because professional outsourced IT providers work with multiple clients and need to keep up on industry best practices, they typically know what is right and what is not. This kind of knowledge and experience dramatically reduces a firm's risk of implementing a costly wrong decision.

2.3 Challenges of outsourcing

The major disadvantages of outsourcing include loss of core activities, loss of strategic flexibility, receiving poor quality of supplies, being leveraged by suppliers, interruptions to supply, employee's loose morale, confidentiality leaks, loss of internal coherence and loss of intellectual property rights (Lonsdale and Cox 2000). According to Yvonnein her article there are risks that a business faces for outsourcing IT. They include: some of IT functions are not easily outsourced. Some organization activities are automated. The vendor should therefore be able to meet the organization complex requirement. Control may be lost. An organization outsourcing IT function requires to hire a supervisor with IT knowledge to manage the activities of the outsourced staff. Employee morale is affected especially if some employee have to be laid off and be replaced by the outsourced firm. The organization may get 'locked in' especially if the organization had to purchase their proprietary software, you may feel you can't go anywhere else or take back your network.

Embleton and Wright (1998), outlined the major disadvantages of outsourcing procurement are :outsourcing cedes control to the provider, once a process has handed over to an outsider, it will be extremely difficult and costly to bring it back in-house; The initial contract can be very competitive, however, the inevitable changes may cost significantly more; The time required to manage the contract may make it more expensive; The quality of the good or service must be monitored because of the contractor's incentive to save money; Providers have multiple clients and consequently, may not be able to give priority to each one and certain processes are not easily outsourced. Other disadvantages are most outsourcing vendors require long-term contracts that provide them with stable revenues while these contracts must be negotiated to allow variability in demand and cost, this flexibility comes at a high cost; vendor owned outsourcing services are less likely to tap opportunities presented by competitive vendors; selling a strategic resource may end up costing a firm in the long run and providers have to make a profit on work the organization did at cost.

2.4 Determinants of Outsourcing Services

2.4.1 Outsourcing Cash Handling

Outsourcing cash handling is a factor that affects cost reduction in an organization. The organization may not have the expertise required thus they incur high cost handling cash which is not there main activity. They may therefore consider outsourcing from external firm. The organizations today are outsourcing cash handling especially the banks in order to reduce costs through minimizing labor cost mainly through outsourcing of non-vital tasks such as refilling and transport (the Asian Banker 2011). On the other hand they face rising cost due to back office inefficiency and a lack of alignment in the cash supply chain. Organizations are interested in ensuring efficient and safe cash handling. The organization outsourcing cash handling should assess the risk that would arise from lack of experience or expertise of an agent (Benoit et al 2008).

2.4.2 Outsourcing Garbage Collection

Garbage collection is an important activity carried by any organization for proper conservation of the environment. Organization responsible for this activity must find a way to carry out garbage collection effectively without incurring a high cost. They may consider outsourcing from external firm. The governments all over the world are outsourcing garbage collection from private company because of their ability to pool resources and use high cost expense such as heavy vehicles thus high productivity. The county government outsources this service because of the following reason: the labour costs for in-house garbage pick-up are much higher than in private sector. If the county governments carry out garbage collection, the taxpayers would have to spend much money to purchase the equipment required. The people involved in garbage collection, in case it is done in-house may fail to deliver and may hard to punish them. External firm can be fined thus they work efficiently to avoid the fine. The refuse and recycling industries is moving towards automated bin system and more municipalities are opting to outsource the service.

2.4.3 Outsourcing Road Maintenance

Outsourcing road maintenance is another factor that affect cost reduction in organization. This service requires high capital expenditure and high skills and knowledge to be undertaken. Organizations may opt outsource this service to reduce cost and get expertise on this area. The government outsource road maintenance to achieve the following goals: to reduce cost, to increase efficiency, to improve quality, to speed the project delivery, to spur innovation, to enhance risk management, to increase flexibility and to overcome lack of expertise (Segal et al 2003).

2.4.4 Outsourcing Information Computerized Technology (ICT)

ICT is a factor that affects cost in organization. Due to rapid changes in technology organizations especially the government organization are not able to keep up with pace thus ending up incurring unnecessary costs. They therefore outsource from private organization. The government organizations benefit from outsourcing ICT through lower operation cost, lower capital investment, greater efficiency, better business processes and more efficient way of working. The organization is also able to access to the latest and great technology.

2.5 Summary and Gaps to be addressed

In summary, there is strong relationship between outsourcing and cost reduction. The author states that the main reason for outsourcing is to reduce cost incurred by organizations on non-core activities. The above mentioned theories state the reason for outsourcing and what to consider. The resource independency theory states that an organization requires a lot of resources that are not available internally and therefore organizations get them from external sources.

The Agency theory states the relationship between the organization and the vendor, the organization being the principle and the vendor the agent. The transaction cost theory states that the organization must compare the transaction costs they incur in-house and that of outsourcing to decide on whether they will outsource. This study doesn't however, state clearly on the effect of outsourcing road maintenance on cost reduction. Also the issue on outsourcing garbage collection and effect on cost has not been brought clearly. Therefore I seek to enlighten on this issues.

3.0 RESEARCH METHODOLOGY

3.1 Research design

This is a case study that has utilized a descriptive case study approach to achieve the set objectives. According to Orodho (2003), a descriptive study is used to determine who, what, when and how a research topic which is a concern for this study. A descriptive study is appropriate firstly because descriptions are informative. The method is useful in applied research in describing the consumers' attitudes (Fornell, 1996). Secondly, descriptions are the starting points for identifying variables and building hypothetical constraints that can be tested using other methods. Thirdly, description is sometimes the only way to study a behavior or situation, because it is either physically or ethically impossible to produce it in an experiment (Heiman, 1999). Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Furthermore, Chandran (2004) states descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Descriptive research design is one of the best methods for conducting research in human contexts because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study (Robinson 2002, Chandran 2004). The descriptive design was appropriate for this study since it helped in collecting data in order to answer the questions of the current status and describe the nature of existing conditions of the subject under study. Descriptive research design also facilitated the use of a questionnaire to collect quantitative data for the study.

3.2 Sampling Procedure and Sample Size

The design of the study was stratified random sampling. This is chosen due to heterogeneous data that gives equal chance of the elements of data to be chosen. The population was reduced using 50% of the total according to Orodho (2003), half of the population is ideal for the study; hence the population was 37 in number. Sampling refers to the systematic selection of a limited number of elements out of a theoretically specified population of elements. The rationale is to draw conclusions about the entire population. According to Mugenda (1999), the ultimate test of a sample design is how well it represents the characteristics of the population it purports to. The reason for sampling in this study is to lower cost, accessibility of study population and the greater speed of data collection. A sample size of thirty seven employees was ascertained, who represent 50% of the target population. This is informed by the principle that if the elements of a population are quite similar, only a small sample is necessary to accurately portray the characteristics of interest. Stratified random sampling was used where the sample size of 50% taken from each of the four categories (strata) of the population. Stratified random sampling was used because it ensured a greater statistical efficiency, and reduced sampling error. Kothari (2004) supports random sampling as it satisfies the law of statistical regularity 'if a sample is chosen at random, on average it has the same characteristics and composition as the population'.

Table 1: Sample Size

Category	Population	Sample size
Top management	3	1
Middle level	8	4
Operatives	64	32
Total	75	37

3.3 Data Collection

Data collection is the process of gathering information about a phenomenon using data collection instruments (Sekaran, 2000). The overall aim of the study was to establish the effect of outsourcing services as a cost reduction measure in devolved government. The data collected was primary in nature through the use of questionnaire. The use of questionnaires for primary data collection has been supported by many scholars among them; Mugenda (1999). A questionnaire is easier to administer, less costly, and ensures greater depth of response, according to Mugenda (1999). Data was collected by use of self-administered semi - structured questionnaires which were hand delivered to the respondents and collected after they were completed. This method was adopted because it covered all the areas that the researcher intended to cover and the perception that the respondents were well versed with the subject under research, thereby requiring no guidance when responding to the questions.

3.4 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda and Mugenda, 2008). Data collected was quantitative. Statistical data analysis was used to organize, summarize and present the data in a way that it can be meaningful and communicated. The Quantitative data was analyzed using descriptive statistics i.e. frequencies and percentages by use MS-Excel. The coding involves arranging the data to show occurrence of the different responses to the matrix questions and closed ended items. Tallies were calculated against each question and their frequencies recorded. The frequencies and percentages were presented in terms of tables, pie chart and graphs in the course of discussing the findings. It is from this that the researcher was able to draw inferences, conclusions and recommendations.

4.0 EMPIRICAL RESULTS AND DISCUSSION

4.1 Respondent Rate

A total of 37 questionnaires were distributed to the selected respondents. A total of 28 questionnaires were duly filled and collected making a 76% response rate. This was an acceptable rate and could be attributed to the fact that the questionnaires were physically dropped to the respondents and collected at an agreed date. The response rate was as follows;

Table 2: Respondent Rate

Category	Population	Sample size	Response rate	Percentage
Top management	3	1	1	100%
Middle level Operatives	8	4	3	75%
	64	32	24	75%
Total	75	37	28	76%

4.2 Influence of Outsourcing Cash Handling on Cost Reduction

The study sought to establish the effect of outsourcing cash handling on cost reduction in Nairobi City County and the results are provided in Table 3.

Table 3: Effect of Outsourcing Cash Handling on Cost Reduction

Statement	Mean	Std Error
Outsourcing cash handling and cash security	3.786	0.026
Outsourcing cash handling has led to Improvement of cash control	3.789	0.501
Outsourcing cash handling has led Reduction of cash handling cost	4.071	0.056
Outsourcing cash handling has led Better cash management	3.893	0.784
Overall Score	3.1078	0.2734

Table 3 shows that 75.7% (mean x20 in a scale of 0 to 100) of respondent strongly agree that outsourcing cash handling has enhanced cash security in the county. Also 77.9% of the respondents agreed that Outsourcing cash handling has led to better cash management. Organizations are interested in ensuring efficient and safe cash handling. The organization outsourcing cash handling has assessed the risk that would arise from lack of experience or expertise of an agent (Benoit et al 2008).

4.3 Effect of outsourcing garbage collection on Cost Reduction

The study sought to establish the effect of outsourcing garbage collection on cost reduction in Nairobi City County and the results are provided in Table 4.

Table 4: Extent of outsourcing garbage collection on cost reduction

Statement	mean	Std Error
Effect of outsourcing garbage collection on capital expenditure	4.321	0.891
Outsourcing garbage collection and recycling of items	2.857	0.116
Outsourcing garbage collection and environmental cleanness	3.5	0.0574
Outsourcing garbage collection and labour cost saving	2.964	0.531
Overall Score	3.4105	0.39885

Garbage collection is an important activity carried by any organization for proper conservation of the environment. About 68.2% (mean x20 in a scale of 0 to 100) of the respondents had opinion that outsourcing garbage collection had high influenced on cost reduction. It was established that, the county government outsourced this service because of the following reason: the labour costs for in-house garbage pick-up are much higher than in private sector. If the county governments carry out garbage collection, the taxpayers would have to spend much money to purchase the equipment required. The people involved in garbage collection, in case it is done in-house may fail to deliver and may hard to punish them. External firm can be fined thus they work efficiently to avoid the fine.

4.4 Effect of outsourcing road maintenance on Cost Reduction

The study sought to establish the effect of outsourcing garbage collection on cost reduction in Nairobi City County and the results are provided in Table 4.

Table 5: Extent of outsourcing road maintenance on cost reduction

Statement	mean	Std Error
Outsourcing road maintenance and capital expenditure	4.324	0.011
Outsourcing road maintenance on quality of roads	3.142	0.412
Outsourcing road maintenance and completion of road maintenance project	4.107	0.701
Outsourcing road maintenance and risk management	3.536	0.571
Overall Score	3.022	0.339

Outsourcing road maintenance is another factor that affects cost reduction in organization. This service requires high capital expenditure and high skills and knowledge to be undertaken. Majority of the respondents expressed satisfaction on outsourcing road maintenance. The Nairobi city county outsourced road maintenance to achieve the following goals: to reduce cost, to increase efficiency, to improve quality, to speed the project delivery, to spur innovation, to enhance risk management, to increase flexibility and to overcome lack of expertise (Segal et al 2003).

4.5 Effect of outsourcing ICT on Cost Reduction

Table 6: Extent of outsourcing ICT on cost reduction

Statement	mean	Std Error
Outsourcing ICT and operation cost	4.357	0.0542
Outsourcing ICT and labour cost	3.857	0.714
Outsourcing ICT on innovation and creativity	3.429	0.257
Overall score	3.881	0.1733

Majority of the respondents agreed that outsourcing ICT led to reduced cost operations within Nairobi City County. Due to rapid changes in technology organizations especially the government organization are not able to keep up with pace thus ending up incurring unnecessary costs. They therefore outsource from private organization. The government organizations benefit from outsourcing ICT through lower operation cost, lower capital investment, greater efficiency, better business processes and more efficient way of working. The organization is also able to access to the latest and great technology.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

All stakeholders were contacted to give their views on the research topic and the researcher was able to come up with the following conclusions. The organization outsources cash handling, garbage collection, road maintenance and ICT. Some of the employees had no idea of what the organization outsources because they have the mentality that there are certain specific employees who should know about it. This should not be the case especially for the supply chain department. There was need to monitor the activities of the cash handling contractor to ensure high safety of cash which happens to be very critical. The way organization handles the issue of cash is very crucial for the image of organization especially to the public, it being a public institution.

Outsourcing garbage collection has led to reduction of cost. Although the organization has achieved its objective of reducing cost, environmental cleanliness was not satisfactory. It was established that, the county government outsourced this service because of the following reason: the labour costs for in-house garbage pick-up are much higher than in private sector. If the county governments carry out garbage collection, the taxpayers would have to spend much money to purchase the equipment required. The people involved in garbage collection, in case it is done in-house may fail to deliver and may be hard to punish them. External firm can be fined thus they work efficiently to avoid the fine.

Majority of the respondents expressed satisfaction on outsourcing road maintenance. The Nairobi city county outsourced road maintenance to achieve the following goals: to reduce cost, to increase efficiency, to improve quality, to speed the project delivery, to spur innovation, to enhance risk management, to increase flexibility and to overcome lack of expertise. All in all the quality of roads are not satisfactory to the user that is the general public.

Majority of the respondents agreed that outsourcing ICT led to reduced cost operations within Nairobi City County. Even though the organization has outsourced ICT, some of the organization activities are done manually. Some of these activities can be automated. The organization should ensure they are much involved in the ICT department activities to be able to keep pace with the rapid change of technology internally.

5.2 Recommendations

Based on the research findings the research makes the following recommendations. The organization should involve employees in making decision to outsource services. They should also be trained on the importance and disadvantages of outsourcing. Organization should carry out proper supplier appraisal to be able to determine whether they will be able to undertake the contract as per the requirement.

Contract performance matrix should be used in the organization which has the following aspects: quality which involves conformance to contract requirements and standards of good workmanship, timeliness of performance which entails adherence to contract schedules, client- supplier relationship that is being reasonable and cooperative, integrity and ethics. Cost control that is forecasting and containing costs on changes and cost-reimbursement contracts.

They should introduce short term contracts especially for the road contractors to ensure quality of roads. The organization should have more employees in the ICT department to avoid the loss of internal ICT experience.

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