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Factors that Influence Effectiveness of Outsourcing of Catering Services in Public Hospitals in Kenya

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ABSTRACT
This study sought to to assess the factors that influence effectiveness of outsourcing of catering services in Public Hospitals in Kenya. The study was guided by the following specific objectives: to examine the factors which contribute to the effectiveness of outsourcing of catering services in public hospitals in Kenya; to evaluate the benefits derived from outsourcing of catering services by public hospitals in Kenya; to assess the challenges to effective implementation of outsourcing of catering services in public hospitals in Kenya; and to establish possible interventions that could be employed to enhance effectiveness of outsourcing of catering services in public hospitals in Kenya. A descriptive survey focusing on Coast Provincial General Hospital and Nyeri General Hopsital was undertaken. There were three respondents from each of the two hospitals – The hospital administrator, the head of procurement function and the head of catering services. For purposes of the current study, the data was analyzed by employing descriptive statistics such as percentages, frequencies and tables. Computation of frequencies in tables, charts and bar graphs was used in data presentation. In addition, the researcher used standard deviations and mean scores to present information pertaining to the study objectives. The information was presented and discussed as per the objectives and research questions of the study. The findings of the study include the following: The type of services outsourced by public hospitals in Kenya: Information Technology; Human Resources; Facilities and real estate management; Accounting and Auditing; Cleaning Services; Customer Care; Security services; and Maintenance of the Information Technology system and equipment. The factors that influence outsourcing of services in state corporations: Competition for professional services; Operational Costs; Nature of business of the corporation; Changing working environment; Management Policies; Government rules and regulations; and Procurement processes and policies. The benefits derived from outsourcing of services include the introduction of workforce flexibility by outsourcing the peripheral workforce; the problem of managing industrial relations is minimized; Increase the proportion of white collar employees at the expense of blue-collar employees, a move aimed at improving the status of manager; reduced costs and increased efficiency; and Focus on core competencies (the specialized nature of an organization's competitive advantage). The findings of study indicate that the major challenges faced by state corporations in Kenya in implementation of outsourcing process include the following:- Lack of clear policy framework and guidelines; Weak enforcement mechanisms; Centralized and lack of transparency in outsourcing; Contracts do not always meet the specific needs of user-institutions; Opposition from the staff and resistance to change; If a services provider does not have efficiency, then it is unlikely to expect efficiency transfer to clients; The external systems may not be compatible with internal ones; One time results from outsourcing are unsuitable and costs are likely to escalate because of the power asymmetries that enable the service provider to charge high premium for add-on-services; and Lack of user involvement in design – over engineered applications. The findings of study indicate that the possible interventions that organizations could employ to enhance effectiveness in outsourcing include:- The organization should try to outsource project management responsibility; The outsourcing project scope ought to be defined; There is need to clearly define expectations from the project; The need to clearly define the Key performance indicators; The need to effectively manage internal conflicts / politics; and Business case / total costs are not realistic
Keywords: *Effectiveness, Outsourcing, Catering services, Public Hospitals*

ABBREVIATIONS

IS	Information Systems
KPI's	Key Performance Indicators
MBA	Master of Business Administration
OECD	Organization for Economic Co-operation and Development
SPSS	Statistical Package for Social Sciences
TQM	Total Quality Management

1.0 INTRODUCTION

1.1 Background of the Study

1.1.1 Outsourcing in Public Hospitals

Outsourcing refers to the contracting-out or buying-in of goods and services from external sources. It thus contrasts with in-house provision by organizations (OECD, 1993, 1997; Walsh, 1995). In recent years contracting-out has emerged as a key policy option in some developing countries seeking to reform and improve their public services, and it is increasingly being recommended, especially where outright privatization is not immediately feasible. The range of public services where it is being applied include health (Bennett *et al.,* 1997; McPake and Banda, 1994; McPake and Hongoro, 1995), water supply (Nickson, 1996), urban services such as refuse collection (Batley, 1996) and urban infrastructure (World Bank, 1994). Though the motive and expected advantages of outsourcing may differ from one organizational or sectoral context to another, they generally include improvement in efficiency as a result of exposure to competition, cost savings, enterprise and use of private sector expertise. However, as McPake and Hongoro (1995) point out, in most developing countries outsourcing is resorted to because of the lack of expertise and technical capacity in the public services rather than a belief that it is a more efficient way of delivering services.

Despite the benefits expected from outsourcing, there is need to exercise caution in extending its application in a developing country context for various reasons. First, there seems to be an assumption that the private sector has the capacity to take on the provision of outsourcing services. This may not necessarily be the case in some developing countries and for some services where both markets and government regulatory capacity may be weak. The World Bank has recently cautioned that outsourcing is not a viable option "for many services in countries with weak capacities" (World Bank, 1997, p. 91). There are institutional constraints and capacity weaknesses that limit the options for outsourcing and these may be particularly acute in services like health, education and water, where operators interact daily with the people they serve, are geographically dispersed, have substantial discretion, and produce outputs that are difficult to monitor and not subject to competitive pressures (World Bank, 1997). These aspects of outsourcing have been under-analyzed in the existing literature.

This study seeks to contribute to the discussion by highlighting some of the institutional constraints and capacity issues raised by the application of outsourcing in a developing country context by using the case of catering services in public hospitals in Kenya. The aim is not to dismiss outsourcing and private sector participation as policy options in this sector, but rather to highlight weaknesses that need to be addressed as prerequisites for extending outsourcing to new activities, and to provide a basis for targeted capacity building if the benefits of outsourcing are to be realized and maximized. It draws on research carried out in Ghana in 1995 and 1996 which examined the application of new public management-type reforms in public health and water services (Addo, J.S. Consultants Ltd, 1994). The methods used were largely qualitative based on extensive in-depth interviews with key officials in the relevant ministries, central agencies, and decentralized units of the health and water services. These interviews were complemented by extensive documentary analysis and review of official reports and secondary sources.

This project proposal is structured as follows:- The first chapter presents the introduction, which comprises of background of the study, statement of the problem, objectives of the study, the research questions, scope and limitations of the study, significance of the study and conceptual framework; chapter two presents the literature review; and chapter three presents the research methodology.

1.1.2 Coast Provincial General Hospital and Nyeri Provincial General Hospital

1.1.2.1 Coast Provincial General Hospital

Coast Provincial General Hospital was founded in 1908 as the Native Civil Hospital in the Makadara area of Mombasa where the General Post Office stands today. Then it had 8 wards staffed by White and Asian doctors and a multinational staff of nurses and subordinate staff. With increased utilization, the need to expand medical facilities was felt and in 1957, the New Group Hospital was built on land where it stands today situated in the Tononoka area on the Mombasa Island with funds provided through the colonial Development and Welfare vote. It was adjacent to Lady Grigg Maternity hospital built the same year by the Municipal Council of Mombasa. The New Group Hospital was however, providing treatment for outpatient services only and patients requiring hospitalization continued to be referred to the Native Civil Hospital at Makadara.

In 1958, the New Group Hospital was renamed Coast Provincial General Hospital and expanded to include an administration block and inpatient wards. Following this development, parts of the Native Civil Hospital were demolished. The Municipal Council owned Lady Grigg Maternity Hospital was taken over by the Ministry of Health in 1971 and became part of the Coast Provincial General Hospital. An adjacent maternity home owned by the Ismail owned Rahemtulla trust was subsequently donated to Coast Province General Hospital and today functions as an Amenity ward bearing the name of the trust. In 1981, the Government commissioned a new wing housing medical and surgical specialty clinics as well as eye, ENT and dental clinics. The new wing also housed the department of physiotherapy, operating theatre with a CSSD section, an intensive

care unit, an x-ray department, a casualty unit with a trauma theatre, a laboratory and a pediatric ward. Today Coast General Province Hospital is the second largest hospital in Kenya after Kenyatta National Hospital. It is a teaching and referral hospital whose service area comprises the seven districts in Coast Province.

According to the Coast Provincial General Hospital reports of June 2010, the facility caters for a primary area population of over 1 million people and the total population of over 3 million in the Coast Province. Currently, the hospital has a bed capacity of 700 for inpatients, an emergency capacity of 42, a maternity unit with a capacity of 22 and an Intensive Care Unit with a capacity of 4 (See appendix V). The hospital has an establishment of 744 staff (see appendix III)

1.1.2.2 Nyeri Provincial General Hospital

Nyeri Provincial General Hospital is located in Nyeri town, one of the key towns on the slopes of Mt. Kenya, approximately 160 kilometers from Nairobi. The town covers an area of about 200 square kilometers with difficult terrain characterized by steep slopes or valleys. Generally, Nyeri District experiences equatorial type of climate with two rainfall seasons. Nyeri town has a number of health facilities, most of them privately owned. The largest of them is Nyeri Provincial General Hospital, supplemented by two other privately. According to the Nyeri Provincial General Hospital reports of June 2010, the hospital has a bed capacity of 400 beds and 80 cots (see appendix III), with an establishment of 510 staff (see appendix III)

1.2 Statement of the problem

In today's dynamic world, organizations must stay competitive, for which outsourcing is a viable option. Benefits include cost reduction, improved quality of service, and risk reduction (Bahli, B. & Rivard, S, 2005). Outsourcing system contributes significantly to national productivity growth through the removal of non-value added activities in procurement process. However, the adoption has been slow in the Kenyan public health service providers and adequate studies assessing the impact of outsourcing have not been done. While some authors have noted the practical difficulties in getting the systems operational[1], there is virtually no discussion of implementation and management models of outsourcing of catering services in the public hospitals in Kenya or of the consequences of these models for the hospitals, suppliers, and the public or for those whose responsibility it is to implement and manage an outsourcing system. In fact, there appears to be little consideration of the management or organizational issues associated with outsourcing.

Studies on outsourcing systems in Kenya have focused on such issues as: - Migwe, I. W (2004),Challenges facing procurement function in Kenya's manufacturing industries; Gali, J F. (1993), TQM for purchasing management; Mulwa, J. Lolwe (April 2000), Role of Strategic Planning in the efficiency of industrial purchasing -A Case study of Firestone East; Kimuyu, L. M (2004), Evaluation of Purchasing Department in a company-A Case study of James Finlay; and Musyoki, R.M (2003), Effectiveness of procurement of small user items - A Case Study of Kenya Ports Authority. None of these studies had any specific attention to the adoption of outsourcing for catering services in the health sector. Lack of a better understanding of the factors that would influence the effectiveness of implementation of outsourcing system, whose importance cannot be over emphasized, is indeed a knowledge gap the researcher will attempt to bridge.

1.3 Objectives of the study

1.3.1 General Objective

To assess the factors that influence effectiveness of outsourcing of catering services in Public Hospitals in Kenya

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

(i) To examine the factors which contribute to the effectiveness of outsourcing of catering services in public hospitals in Kenya

(ii) To evaluate the benefits derived from outsourcing of catering services by public hospitals in Kenya.

(iii) To assess the challenges to effective implementation of outsourcing of catering services in public hospitals in Kenya

(iv) To establish possible interventions that could be employed to enhance effectiveness of outsourcing of catering services in public hospitals in Kenya.

1.4 Conceptual Framework

On the basis of the literature review, the researcher found Heeks *et al*, (2000) COCPIT2 model parsimonies enough to capture the key antecedents of outsourcing success identified in previous studies and have adopted it

[1] Ernst & Young, Enabling E-Commerce: E-Procurement – (Boosting the Bottom Line, 2001.) (http://www.ey.com/global/download.nsf/Ireland/eprocurement/$ file/e-procurement.pdf).

[2] Coordination and control systems; objectives and values; capabilities; processes; information and technology.

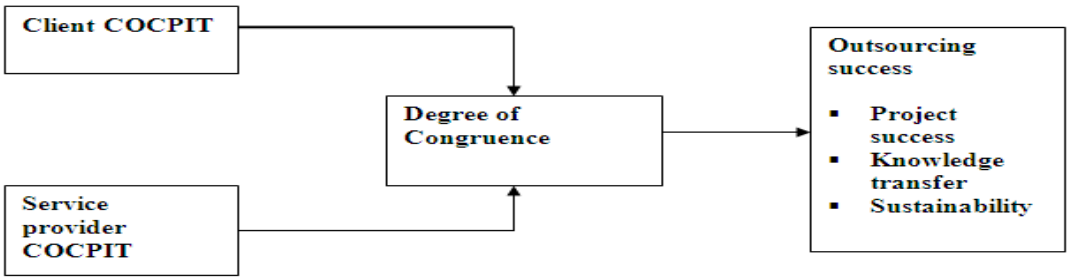
for the purposes of the study. The COCPIT model enables to analyze the degree of congruence between clients and service providers along six dimensions. The dimensions include: (i) Coordination and control systems, i.e., the extent to which a client and its provider use similar systems such as staff monitoring and appraisal; (ii) Objectives and values, i.e., degree of organizational cultural similarity between the two parties; (iii) Capabilities, i.e., how far the providers capabilities match the needs of the client, if the client needs specialists in Oracle, the provider must satisfy that need; (iv) Processes, i.e., both parties must use similar processes, e.g. if the client concentrates on soft issues, the provider may employ soft systems methodology; (v) Information, i.e., the extent of information sharing on outsourced work between the parties and (vi) Technology, i.e., the degree of similarity in technology between the development and use environment; both need to employ similar technology for the purpose of development work as a lack of congruency will develop a system that is incompatible to a client's technology base.

According to the framework below, outsourced relationships are likely to succeed if the COCPIT dimensions depict close match between the client and the service provider. Such relationships are likely to be in synch; other relationships with a significant gap on the dimensions are liable to sink (Heeks, 2003). In terms of outsourcing success the researcher followed Kim and Lee's[1] and Lee's[2] suggestions that outsourcing success should be seen from the successful completion of outsourced applications; their value within organizations and continuity of the deal. Consequently, we have used three measures of success: project success, knowledge transfer and sustainability.

Project success focuses on short-term transactions emphasizing the completion of outsourced work. It is seen through the achievement of objectives sought prior to project initiation (Kim and Lee, 1999). If the initial project outsourced is a success then that is likely to contribute to the continuation of the relationship, which in turn increases the likelihood of achieving other benefits (Hancox and Hackney, 2000). Evaluated this way, a project could succeed totally or partially or fail completely (Heeks, 2001). Total success refers to the achievement of all the intended objectives of a project. Partial success on the other hand is characterized by project completion with certain objectives being unachieved. If a project fails to meet all or the majority of its intended purposes, then it can be considered as total failure.

Knowledge transfer, both explicit and tacit, on the other hand, helps to assess the business value added through outsourcing arrangements (Lee, 2001). Explicit knowledge transfer could be gauged by looking at the nature of the information exchanged (general business know-how, source codes and user guides). Lee further asserts that implicit knowledge sharing on the other hand could be assessed by the extent of training and direct contact amongst workers. The overall prognosis of relationship success hinges on its sustainability in the longer-term. Sustainability for this analysis measures the mutual desire of the client and service provider to keep the relationship going. Figure 1.1 captures the conceptual framework.

Figure 1.1: Conceptual Framework



Source: Heeks, Krishna, Nicholson and Sahay (2000)."*Synching or sinking: Trajectories and strategies in global software outsourcing relationships*", Development Informatics Working Paper No. 9, Institute for Development and Policy Management (IDPM), University of Manchester.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a description of the relevant literature surrounding the research problem, which form the foundation of the empirical study. The researcher discusses outsourcing in general and then takes a look at its

[1] Kim, Y. and Lee, J. "Effects of partnership quality on IS outsourcing success: Conceptual framework and empirical evaluation", Journal of Management Information Systems, Volume 15, Number 4, 1999, pp. 29-61.
[2] Lee, J. "The impact of knowledge sharing, organizational capability and partnership quality on IS outsourcing success", Information & Management, Volume 38, Number 1, pp. 2001, pp. 323-335.

significance and contribution in organizational and supply chain management. Moreover, as a way of providing a fundamental and necessary framework for the study, different terms and concepts like outsourcing process, models, benefits and barriers are developed and defined in this chapter.

2.2 The concept of Outsourcing

Many definitions of outsourcing exist in literature. We start with a working definition of outsourcing as turning over part or all of the organization's procurement functions to external service provider(s) to acquire strategic, economic and technological advantages to improve overall business performance (Kakabadse, A. and Kakabadse, N., 2002). Service based economy of modern age offers exciting opportunities to profit-making companies to further increase their profits through strategic outsourcing (Quinn, J.B., 1999). Hence outsourcing could be one of the key decisions on which depends firm's performance and profitability. Outsourcing can be done for the reasons including obtaining higher values, more flexible and integrated services than internal sources can offer, improving capacities to stay current and innovate by interacting with leading firms in the business, achieving improved and effective logistics and shareholder value gain that the company cannot achieve otherwise.

Razzaque and Sheng (1998) define outsourcing (or: third party logistics) as the provision of single or multiple logistics services by a vendor on a contractual basis. It has been estimated that about 40 per cent of global logistics is outsourced (Wong *et al.*, 2000), and increasingly many shippers consider it an attractive alternative to the traditional logistics service mode (Hong *et al.*, 2004). Razzaque and Sheng (1998) and Wilding and Juriado (2004) provide literature reviews on outsourcing, investigating which activities are typically outsourced and the main reasons for doing this. The top five reasons found for outsourcing relate to: (i) costs or revenue, (ii) service, (iii) operational flexibility, (iv) business focus and (iv) asset utilization or efficiency.

Service Providers are able to achieve economies of scale by providing logistics services to a number of customers, making cost- or revenue-related reasons as the most important for shippers wishing to outsource logistics processes. The most commonly outsourced processes are transportation and shipment, warehousing and inventory, information systems and value-added services.

2.3 Reasons for Outsourcing

According to Forster (1994), the rationale for outsourcing in both public health sector may be summarized as follows: The lack of requisite staff, skills, and technical expertise in providing some services such as complex construction and maintenance works. In other activities such as cleaning in the water sector, contracting-out has been resorted to because of employment cuts in manual and low skill jobs; Sometimes contracting-out is resorted to in order to speed up work where in-house capability is not enough; In some donor-funded projects contracting-out has been used due to donors' preferences, in some cases with contracts awarded to the home companies of donors; and with increasing cost of health and water services provision *vis-à-vis* limited government resources, contracting-out in particular and private sector participation in general are emerging, especially in the water sector, as options to improve efficiency and raise additional capital for rehabilitation and expansion of facilities to meet growing demand.

Overall, six reasons can be gleaned from the theoretical and empirical literature to account for the adoption of outsourcing. The first is that managers have wanted to reduce costs and increase efficiency, which the economic literature argues can be achieved by adopting certain structural forms (Williamson, 1979; Eisenhardt, 1989).

Focusing on core competitive advantage is a second reason discussed. In this instance, the specialized nature of an organization's competitive advantage is raised by Porter's (1980) corporate strategic theory as important when choosing which governance structure is put in place. In this regard, those functions or activities regarded as non-core can therefore be outsourced.

The third reason, being to introduce workforce flexibility by outsourcing the peripheral workforce, is based on Atkinson's (1984) flexible firm model. In contending that labor be divided into core and peripheral segments, workforce flexibility is maximized with the core segment providing functional skills and the peripheral segment providing numerical skills.

The labor market and political literature (Burgess and Macdonald, 1990; Pfeffer, 1992; Benson and Ieronimo, 1996) suggests that a fourth reason for outsourcing is to reduce the problems of managing industrial relations. In this regard, the use of outsourcing is said to increase the power of management over labor and weaken the power of trade unions.

The personal objective of decision makers is a fifth reason for outsourcing and is primarily found in the political and public choice literature dealing with this issue (Pfeffer, 1994; Downs, 1967). One example is the use of outsourcing to increase the proportion of white-collar employees at the expense of blue-collar employees, a move aimed at improving the status of managers (Dunleavy, 1991). Public choice theory (Hanke and Walters, 1990) asserts that public sector decision makers are motivated by self-interest which Downs (1967) maintains is divided into self-interest, through a desire for power, money and prestige as well as more broader interests of

maintaining loyalty to work groups, agencies, government or nation. In this vein, a sixth reason is the desire to align public sector agencies with the ideology of the government providing the funding (Downs, 1967; Feigenbaum and Henig, 1994). The reasoning here assumes that decision makers are motivated by a desire for power and see this being fulfilled by acting in the interests of the government.

2.4 The Value of Outsourcin

The literature on outsourcing value is unequivocal. Some of the major benefits include, curtailing costs owing to competitive scale economies with external vendors (Teng, J. Cheon, M. and Grover, V., 1995); enabling focus on core competencies and freeing up resources (Udo, G. , 2000); bridging of the skills gap of clients (Heeks, R., 2001), and adding strategic value (Tereska, J., 1990). However, others have challenged the above benefits of outsourcing. For instance, Lacity, M (1993) asserts that there is no empirical evidence to suggest that outsourcing service providers would be more efficient than internal Information Systems departments. Others share this and argue that in the long term, internally developed applications are cheaper than outsourced applications (Ikram, F., et al, 2002). This is because internal departments usually have some business specific knowledge. Additionally, internally developed applications tend to be user-friendlier and better maintained with more systems support than is the case otherwise. Furthermore, some service providers might not have internal efficiencies. If a service provider doesn't have efficiency, then it is unlikely to expect efficiency transfer to clients (King, W. and Malhotra, Y., 2000). Lacity *et al* (2003) further argue that one-time results from outsourcing are unsustainable and costs are likely to escalate because of the power asymmetries that enable the service provider to charge high premium for add-on services. Outsourcing could also result in lowering of employee morale and the building of systems whose design is incompatible with organizational realities (Palvia, P., 1995 and Heeks, R., et al 2000).

Other common pitfalls that are experienced in systems development such as lack of user involvement in design; over-engineered applications without regard to precise requirements may be magnified as a result of outsourcing. This is because development of outsourced applications would presumably take place in an environment where business know-how for the application could be considerably lower than that with the client's organization. Hence, there is high likelihood for a design-reality gap owing to outsourcing (Heek, R. 2001).

Overall, it appears that there are no universal advantages from outsourcing. The success of outsourcing (either in the form of successful project completion or in terms of lower costs, better quality of IS, knowledge transfer and other strategic benefits) does appear to depend on the quality of the relationship between the service provider and the client (Hancox, M. and Hackney, R. 2000 and Chi-wai, K et al, 2000)

2.5 Stakeholders and outsourcing in the developing countries

Outsourcing implies major change, and it is widely recognized that this can encounter resistance within organizations (Kakabadse & Kakabadse 2000). It is also argued that the way the change is managed can affect the success of the outsourcing strategy (Gay 2000, Goolsby & Withlow 2003, Kakabadse & Kakabadse 2003). The potential changes brought about through outsourcing are not restricted to economic areas. Psychological and social implications have the potential to adversely or positively affect tangible business results (Rousseau & Greller 1994, De Vries & Balazs 1997). Thus, for Cost General Hospital's pilot project for outsourcing of catering services, the success of the outsourcing strategy, was highly dependent on the support and actions of their primary stakeholders, i.e. their employees and their customers. Both viewed the outsourcing initiative with skepticism, with the public being afraid that these operations would become too commercialized and the employees and management in the organization being afraid of losing their jobs. Given the potential for controversy and opposition arising from changes that would result from the commercialization strategy, it was imperative for the management of Coats General hospital to inform and manage all stakeholders well in order to succeed in creating and sustaining value-expanding relationships with their outsourcing providers.

Privatization and public sector outsourcing in the developed world and in some emerging economies has been widely adopted as a vehicle to achieve reform in the new public management (Dean & Kiu 2002), and it can lead to efficiency gains, while maintaining or increasing service quality levels (OECD 1997).

2.6 Public sector outsourcing – value creation

In public sector organizations, there is no profit-maximising incentive, little potential for income generation and, generally speaking, no bottom line against which performance can ultimately be measured. The vast majority of public sector organizations receives most of their income from the state, and therefore has to account to several stakeholders. The public sector is facing rising demand for facility services without an increase in revenue (Faucett and Brian, 1994). Gray (1998) therefore argues that public companies could become effective and efficient by using external providers. Outsourcing has come a long way from its origins. No longer seen as

purely a means of cutting or containing costs, it is now recognized as playing a key supporting role within many other business strategies. Indeed, organization managers, aware of the opportunities outsourcing, can steal a march on their rivals. Outsourcing, as a strategy, has the potential to drive competitiveness beyond the narrow goal of cost reduction. Achieving greater focus, improving core activities, efficiency, fuelling innovation and enabling strategic repositioning are just some of the many promising options that outsourcing as strategy can offer and support (Leavy, 2004). Managers must, however, also be equally aware of the potential risks involved, such as accountability problems and loss of business knowledge (Politt, 2005).

2.7 Catering services in the health-care system

As a result of the distinctive nature of the public hospitals, as a comprehensive and government-sponsored public health-care system, the meal services provided are available equally for every one in the hospitals and the services have ambitions of high quality. Debates over whether or not resources are spent effectively and efficiently to benefit and satisfy the patients' expectations have provided the impetus to improve procedures and attitudes for serving meals as part of the four waves of health-care reform (Levitt *et al.*, 1995). The gradual recognition of food as therapy (Maryon-Davis and Bristow, 1999) reminds the the public hospitals that basic essential care includes not just medical procedures, but also feeding their patients to help them regain their health. Guidelines and patient charters have been instituted in an attempt to ensure that high quality meals are prepared and delivered to patients.

However, catering budget cutbacks have resulted in an increase in the outsourcing of catering services to contract caterers (a result of the concept of internal markets), which has created changes in the provision of meal service in terms of separating the management chain within the the public hospitals. The intangible aspect of meal services has also shifted, with the role and responsibility of staff at meal-times a lower priority compared with other procedures, regardless of its being seen to be a valuable nursing task (Kowanko, 1997). Contracted-caterers specialising in meal provision have now stepped into hospitals and their responsibility may extend to ward level and serving the public hospital patients (De Raeve, 1994).

2.8 Institutional constraints in outsourcing

Bennett *et al* (1997), examined the mechanisms for tendering, monitoring and enforcing contracts and how well they work in practice, with the aim of unearthing some of the institutional factors that undermine effective outsourcing. A number of constraints were identified and these are outlined in what follows.

Lack of clear policy framework and guidelines: This is evident at macro/ national, sectoral, and the micro/organizational levels. There are no coherent policy guidelines and criteria for contracting-out. Though criteria for awarding contracts exist in various forms these have not been pulled together into a policy framework or guidelines for public sector managers.

Centralization and lack of transparency in outsourcing decisions*:* These are common institutional features in the two sector organizations. Decentralized units can only contract-out non-capital projects of limited value. Though this may be understandable because of the lack of technical capacity in hospitals and other decentralized units, one would expect host or beneficiary organizations of contracted services and projects to be informed and involved in the decision-making process. In practice they are not. Consequently, host or beneficiary organizations have little or no supervisory role and leverage over contractors executing projects in their areas of jurisdiction. At best they may be represented on committees that oversee particular projects. This has often created problems in the relationship between contractors, whose allegiance is to their paymasters in central agencies, and the management of beneficiary organizations such as hospitals. One implication of centralization and lack of participation and ownership of contracting decisions is the lack of enthusiasm and incentives, on the part of user-institutions, to ensure contract performance and quality of service delivery. On the other hand, central agencies who have a major say in the award of contracts and those who authorize payments may have no real incentive to be cost-conscious and ensure contract performance. Within the teaching hospitals and other decentralized units it was learned that contracting-out decisions are sometimes monopolized by a few powerful individuals. This has sometimes led to charges of lack of transparency and the use of contracts as avenues for rent-seeking and patronage. The decision as to who should let out contracts has sometimes generated tensions between different levels of authority and agencies within the two sector organizations.

Contract enforcement mechanisms are weak: In principle, there are formal mechanisms for enforcing contracts. These include monitoring against output-based quantity and quality standards, use of written warnings, resort to legal action and termination of contracts with forfeiture of guarantee fees. However, these are not rigorously applied in practice. The responsibility for monitoring and enforcing contracts is not always clear. The fragmented, uncoordinated and often personalized nature of letting out and managing contracts tend to blur the lines of responsibility and accountability in contract enforcement. It is common to find separate agencies involved in contract management - the design of contract, award of contract, monitoring and evaluation of contract performance, and payments to contractors - but no effective co-ordination and sharing of information

among them. The result is that sometimes contractors get away with shoddy work or poor quality of services because principals fail to check on the work of agents. Also legal procedures and institutions are seldom used as means for enforcing contracts (see also Fafchamps, 1996). This is because of their protracted nature, distrust in the system, cost in terms of time and finance, and sometimes a culture of tolerance and understanding for non-performance.

Enforcement has tended to rely more on informal means such as threats and fear of loss of reputation in case of default. In the two public organizations keeping a list of "trusted" contractors with whom they do business is common practice. The desire to preserve long-term profitable business relationships and to avoid being struck off the list of "trusted" contractors seems to provide incentives for performance by contractors. One would agree with Fafchamps' (1996) view that this informal mechanism is an institutional response to the high level of contract enforcement problems in developing countries. It is an attempt to minimize the risk of adverse selection. What this implies is that a co-operative rather than a punishment-based approach to contract enforcement tends to be dominant. Since default is likely to damage relationships between principals and agents, especially in situations where contracting decisions were personalized, there is pressure on both parties to make the contract work. The down side of this is that default tends to be excused or concealed, with the principal unwilling to take legal action or punitive measures against the agent since such actions may expose "deals".

Contracts do not always meet the specific needs of user-institutions: This applies more to the health sector than to the water sector. The principal explanations given by key informants were that: contracts were not always based on needs assessment of the user-institutions; there were no proper systems for estimating needs and costs; and there was lack of consultation with or feedback from the user-institutions. These weaknesses are not unconnected with the problem of centralization and the sometimes personalized nature of making contracting-out decisions, as well as the limited voice given to user-institutions like hospitals who are at the front-line of service delivery. There have been instances in the health sector where contracted procurement, e.g. for drugs, has been supplier-driven rather than user-driven, leading to stock piling and eventual expiration of such drugs, whilst essential drugs may be out of supply.

Problem of affordability and access by the poor: This is a major dilemma confronting government and the public sector sector organizations in seeking to extend outsourcing to cover the direct delivery of services. Halcrow, (1994), looked into outsourcing of ancillary services in health and suggested that outsourcing services are likely to be more expensive than in-house provision because private sector wages are higher. In the absence of a national health insurance scheme and effective safety nets, one major concern is how to cater for the poor (Smithson et al, 1997) .

Opposition and resistance to change: The above concerns and others have given rise to some opposition to plans to extend outsourcing and other forms of private sector participation to core services provision. While recognizing the problem of uneconomic fees for health services, opponents point to the need to relate increases to real wages and salaries which are admittedly low in the developing countries (Batley, 1996). Also some stakeholders within the health sector consider attempts to extend outsourcing as an encroachment on their core functions. For example, a proposal to outsource pharmaceutical services in the Ministry of Health in Ghana was rejected by hospitals, since they considered this as part of their core function (Addo, J.S. Consultants Ltd, 1994). Similarly, hospital staff, particularly medical doctors, have opposed attempts to outsource the provision of meals to patients on grounds that it is part of their core function of providing curative health care (World Bank, 1997).

According to Fafchamps (1996), resistance to outsourcing may be explained by several factors. These include the fear of loss of jobs; uncertainties about benefits of private provider arrangements; the lack of information and adequate communication about proposed changes to both management and staff; there were delays in consulting staff and unions and engaging them in a discussion to explain the rationale for contracting-out and the potential benefits of private sector participation. Until recently, these concerns were not sufficiently addressed by the governments and management of the public health sector organizations in developing countries and consequently created considerable fear and anxiety among both the staff and unions (McPake and Banda (1994). Best practices elsewhere suggest that if outsourcing is to be successful then ownership and oversight should rest with the very top management of the organizations that are going to adopt it, and measures should be taken to allay the fears of the workforce, otherwise they could undermine implementation (OECD, 1997).

2.9 Capacity issues in Outsourcing

The above constraints raise a number of capacity issues that need to be addressed as prerequisites for extending contracting-out to new activities in the two sector organizations. Forster (1994), highlighted a number of capacity issues in the health sector as follows: (i) that private sector capacity and interests to take on direct provision were weak; only one firm expressed interest, thus limiting the scope for competition and risking private monopoly; (ii) that there were no proper regulatory frameworks and policy guidelines on dietary provision; (iii) that service specifications needed to be developed and agreed to, but given the fairly recent nature

of introducing charging for meals, this may take some time to develop; and (iv) that the capacity to design and manage contracts was weak at both the individual hospital level and the Ministry of Health level.

According to McPake and Banda (1994), more generally the capacity issues raised by outsourcing in the health care sector in developing countries may be summarized as follows:

Capacity to develop policy directives and regulatory framework: The absence of national and sectoral policy and regulatory frameworks on outsourcing is a major capacity issue that needs to be addressed. This is not just a skills question for policy analysis, but also a strategic problem of sequencing reforms. A regulatory framework needs to be put in place if contracting-out and other forms of private sector participation are to be extended to core social and economic services. This is necessary to protect public interest and check abuses. The legal framework to set up a utility regulation commission has only recently been put in place but the regulatory body is yet to be set up.

Capacity to streamline and strengthen the tendering procedures: Outsourcing complex activities in in health services require knowledge of the markets as well as the technical knowledge of the activity to be outsourced. This will enable the public organization(s) concerned to design and effectively tender for contracts. Service specifications (e.g. quality, quantity, qualifications for contractors etc.) need to be drawn up and these require specialist knowledge which are currently scarce in the public services.

Capacity for contract enforcement and monitoring: The analysis of institutional constraints suggests that mechanisms for enforcing and monitoring contracts are defective. The proposed institutional reforms in health sector envisage a complex relationship with a wide variety of providers of technical and support services in the private-for-profit and voluntary sectors. The capacity to monitor their performance is an essential element of contracting-out. Admittedly the ministries of Health in developing countries have limited capacity to manage these relationships on an extensive scale. The skills and organizational structures for effective contract management need to be improved.

Capacity to assess costs and needs: The ability to assess costs and needs are critical capacity issues in outsourcing. The Ministry of Health will need to develop the capacity to assess whether or not in-house provision will be more efficient than outsourcing. Thorough costing of activities provided in-house should be conducted as a benchmark for evaluating outsourcing proposals. This would involve identifying all costs - direct and indirect - such as depreciation, costs of capital employed, and severance pay, if staffs are to be retrenched (OECD, 1997). These would require skills in financial and economic analysis and management, particularly cost accounting, which are difficult to attract and retain in the public services because of the relatively poor salaries and conditions. The current capacity to generate and manage cost information in the public services is weak. Cost information tends to be incoherent in most cases. All these make it difficult to undertake meaningful comparative cost-analysis and assess alternative ways of service provision.

The development of information systems and related human resources: This is a necessary prerequisite for successful outsourcing on a large scale. Underlying the weaknesses in outsourcing in the health sector is the lack of a reliable system of storing and analysing information for management decisions. The development of information technology and systems for management purposes is still low in the public services. The result is the lack of cost awareness and cost control on a reliable and a regular basis.

The capacity of the private sector to take on direct provision: As noted in the case of outsourcing of ancillary services in health, the availability, capacity and willingness of the private sector to take on direct service provision is judged to be weak technically, financially and managerially. So far most outsourcing has predominantly been in the provision of support services and not in direct and core services provision. Care should therefore be taken to assess private sector capacity to take on the role of direct providers of outsourced services. The lack of potential private firms willing and able to take on outsourced services is a major limitation on the ability to ensure that there is competition between potential contractors, and that competition leads to efficiency.

2.10 Outsourcing: Success factors

There are many benefits to outsourcing. Companies are able to focus on their core competencies, benefit from cost savings and manage workloads more efficiently. With these benefits, there are also challenges. These challenges can relate to project management, cultural differences and management of expectations. Benbasat, *et al,* (2000) identified ten oversights companies frequently incur. These are:

Companies try to outsource project management responsibility: It is often thought that once something is outsourced, it no longer requires attention. From a different perspective, when companies outsource - they are insourcing expertise, which is similar to hiring consultants. Without proper internal project management, companies can experience an increase in the project scope (reduction in cost savings); inefficiencies related to misunderstood expectations and increased tension between the service provider and the company. Project management can be performed externally; however, this should be done with a third party provider that has clearly defined key performance measures.

Project scope is too big: If the scope is too large or not well defined, it will cause problems for any type of project. Our partners have found that smaller pilots are an effective way for organizations to get their feet wet in outsourcing; gain crucial organization know-how and build relationships that will serve as a solid foundation for future, more comprehensive outsourcing initiatives.

Project definitions / expectations are not clearly defined: Reasonable, measurable, documented expectations are necessary to determine success or failure of the outsourcing effort. Without upfront investment in proper planning, the benefits of outsourcing will diminish quickly.

Key performance indicators are not properly defined or measured/enforced: It is critical to establish the key performance indicators (KPI's) prior to initiating the project. KPI's should include delivery dates, quality measurements and financial measures. It is important to review the KPI's on a regular basis and have mechanisms in place to resolve performance issues when KPI's are not met. KPI's should be viewed as a way to strengthen the working relationship.

Internal conflicts / politics are not managed properly - Outsourcing is a sensitive topic. Internal conflicts / politics can result from such initiatives. Managing these issues as soon as possible will help prevent them from escalating throughout the organization. Pro-active change management initiatives can help reduce the likelihood of such conflicts.

Mechanism to resolve disputes is not defined: Even with best intentions, disputes can develop. It is important to define how to address disputes, define the escalation process and if necessary, the appointment of third party arbitration. A poorly defined dispute resolution process will affect performance and quality. This problem is closely related to poorly defined or poorly measured/monitored performance characteristics.

Business case / total costs are not realistic: If it sounds too good to be true, it probably is. Costing outsourcing engagements requires more that the simple calculation of (number of hours) x (rates). Investment in process changes, infrastructure and external support should be factored into the equation as well as internal project management time.

Capabilities of outsourcing company are exaggerated: Detailed due diligence including multiple conversations with current customers is the minimum requirement for understanding the outsourcer's capabilities. Working with outsourcing providers with a solid track record will help minimize many of the headaches associated with being the first client.

Outsourcing company chosen based on personal relationship, not qualifications: When choosing an outsourcing provider, it is important to define clearly the outsourcing provider profile. This should include location, language capabilities, reference requirements, industry expertise, etc. If the outsourcing company does not fulfill these requirements, the reasons for selecting the company should be questioned.

Proper consulting support / legal counsel is not involved in project: Outsourcers negotiate contracts with companies all of the time, most companies do it less frequently. Acquiring proper consulting support / legal counsel will make the process more efficient and mitigate potential future oversights. When selecting a third party provider for support, it is important to conduct a similar due diligence to the one used for selecting an outsourcing provider.

3.0 METHODS

3.1 Introduction

This chapter aimed at defining the research design and methodology used in the study. It contains a description of the study design, target population, sample design and size, data collection instruments and procedure.

3.2 Research Design

To undertake the study, a descriptive research design was used. This is a scientific study done to describe a phenomena or an object. In this case the study phenomenon is outsourcing of catering services. This kind of study involved a rigorous research planning and execution and often involves answering research questions. It involved an extensive well-focused literature review and identification of the existing knowledge gap. The method was preferred as it permits gathering of data from the respondents in natural settings. In this case, it was possible for the researcher to administer the data collection tools to the respondents in their workstations, which was relatively easy and enhanced the response rate.

3.3 Population of the Study

The focus of the study was Coast Provincial General Hospital and Nyeri Provincial General Hospital. Coast General Hospital was selected to participate in the study because it was the pilot site for outsourcing of catering services by the Government. Nyeri Provincial General Hospital was selected because its size in terms of operations is almost equal to Coast General Hospital. There will be three respondents from each of the two hospitals – The hospital administrator, the head of procurement function and the head of catering services. The study took a period of three months, commencing June, 2010.

3.4 Sample Design

It would have been desirable to use a census of the whole population of the public hospitals in Kenya, which are spread countrywide but owing to such limitations as the distances to be covered to each of the hospitals, the costs that would be involved in covering them and the given time frame among other reasons, the researcher focused on Coast General Hospital and Nyeri Provincial General hospital.

3.5 Data Collection instruments and Procedure

Both secondary and primary data were collected. Desk study was undertaken, in which a review of the relevant literature was carried out. Information pertaining to outsourcing in organizations was critically reviewed. The sources of information included various websites, books, magazines, Journals and available reports from organizations. The desk study enabled this research to be grounded in the current literature relating to outsourcing in organizations. This development ensured that the research does not duplicate other studies, and instead make a significant contribution toward the subject of study.

3.5.1 Data Collection Instruments

The questionnaire, which was the main data collection instrument, enabled the researcher to gather in-depth information on phenomena under investigation. The questionnaire consisted of two sections, Section I and section II. Section consisted of items pertaining to profile of the respondents while section II consisted of items pertaining to the area of study. The researcher also used interview schedules, which had open questions, aimed at meeting the objectives of the study. In addition, observation method was used in confirming the questionnaire responses.

3.6 Data analysis and Presentation

According to Marshall and Rossman (1999), data analysis is the process of bringing order, structure and interpretation to the mass of collected data. For purposes of the current study, the data was analyzed by employing descriptive statistics such as percentages, frequencies and tables. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher prefered SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. Computation of frequencies in tables, charts and bar graphs was used in data presentation. In addition, the researcher used standard deviations and mean scores to present information pertaining to the study objectives. The information was presented and discussed as per the objectives and research questions of the study.

4.0 RESULTS AND ANALYSIS

4.1 Introduction

This chapter covers the data analysis, discussions and presentation of findings. It presents findings of the study on the factors influencing outsourcing in public hospitals in Kenya. All the six questionnaires given out were returned completed (100% response rate).

4.2 Profile of Respondents

4.2.1 Gender of Respondents

The gender of the respondents was recorded, which is in line with the Equal Employment Opportunity[1] proposal that encourages active participation of both genders in development activities. The findings show that out of the six respondents that were targeted, (67%) were male while 2 (33%) were female. It can be concluded that the management of the public hospitals in Kenya is male dominated.

4.2.2 Length of service

The respondents were asked to indicate the length of time they had worked in their respective organizations. It is assumed that the longer one worked in an organization, the more experience they understood the organizations and hence the more objective the responses would be. The responses are summarized and presented in table 4.1 below.

[1] This purpose means that we must stand out as an employer in our commitment to equality and diversity. We aim to ensure fair and equal treatment for everyone within an organization that values the variety of backgrounds, styles, perspective values and beliefs and where everyone has an equal right to dignity and respect. We will make sure that everyone knows clearly what is expected of him or her and how they can contribute to this vision. This policy sets out how we will make this vision a reality. (DPM Kenya, 2007)

Table 4.1: Length of service of respondents

Length of service of respondents in current organization	Responses	
	Frequency	Percentage
Less than 1 year	-	0
Between 1 and 5 years	2	33
Between 6 and 10 years	2	33
Between 11 and 15 years	1	17
16 years and above	1	17
Total	**6**	**100**

The findings show that whereas none of the respondents had worked in their respective organizations for less than 1 year, majority of the respondents (67%) had worked in their respective organizations for at least 6 years. Their responses were thus expected to be objective.

4.2.3 Period worked in current position

The respondents were asked to indicate the period of time they had worked in their respective positions. It is assumed that the longer one worked in a particular position, the more experienced one gained in the related area and hence the more objective the responses to the study would be. The responses are summarized and presented in table 4.2 below.

Table 4.2: Period worked in current position

Length of service of respondents in Current position	Responses	
	Frequency	Percentage
Less than 1 year	1	17
Between 1 and 5 years	2	33
Between 6 and 10 years	2	33
Between 11 and 15 years	1	17
Total	**6**	**100**

The responses show that while only one responded had been in the current position for less than 1 year, 2 of the respondents had worked in their respective positions for between 1 and 5 years, 2 respondents had worked in their respective positions for between 6 and 10 years while 1 respondent had worked in the current position for between 11 and 15 years. Since majority of the respondents (50%) had worked in their respective positions for at least 6 years, it is expected that the responses were objective.

4.2.4 The procurement function on the hospitals

The respondents were asked to indicate their duties and responsibilities. The researcher sought to establish the functions of the procurement unit and roles played by each of the respondents. The roles played by the personnel in charge of the procurement function in relation to procurement of goods and services are summarized and presented as follows:- Coordination of procurement activities in the hospital (receiving requisitions from user departments, ordering for goods and services and issuing to user departments), storage of goods not issued out, preparation of procurement plans, maintenance of up to date suppliers data base. The personnel in charge of procurement were also the secretaries to their respective tender committees.

The hospital administrator was not only in charge of general administration in the hospital, but was also charged with the responsibility of charting the strategic direction of the hospital in line with the Ministry of Health Strategic Plan. The personnel in charge of catering were responsible for preparing budgets depending on demand and presenting the same to the procurement function.

4.3 Factors influencing outsourcing in state corporations in Kenya

4.3.1 Existence of outsourcing

The respondents were asked to indicate whether their respective organizations undertook outsourcing of services. All the six respondents indicated their respective organizations undertook outsourcing of certain services. The responses indicate that the respondents were well placed to articulate issues of concern in the study in as far as outsourcing is concerned, since they had all embraced it in their respective organizations. The respondents were further asked to indicate the services their respective organizations had outsourced. The responses are summarized and presented in table 4.3 below.

Table 4.3: Type of service outsourced in the public hospitals in Kenya

Type of service outsourced	Frequency	Percentage
Information Technology	3	50
Human Resources	4	67
Facilities and real estate management	6	100
Accounting and Auditing	2	33
Cleaning Services	4	67
Customer Care	0	0
Security services	6	100
Maintenance of the Information Technology system and equipment.	4	67

4.3.2 Factors that influence outsourcing of catering services in public hospitals in Kenya

In order to meet the first objective of the study, "To identify the factors that influence outsourcing of catering services in public hospitals in Kenya", the respondents were asked to indicate the extent to which listed factors had influenced outsourcing of services in their respective organizations. The responses are summarized and presented in table 4.4 below. ***Where:*** **Not extent = (1);** Minimal Extent = **(2);** Not Sure = **(3);** Some Extent = **(4);** Great extent = **(5).**

Table 4.4: Factors that influence outsourcing in public hospitals in Kenya

Factor	(1)	(2)	(3)	(4)	(5)	Mean	Std. Dev
Competition for professional services	0	1	1	2	2	0.419	0.837
Operational Costs	0	0	1	2	3	0.655	1.309
Nature of business of the corporation	0	1	1	2	1	0.354	0.707
Changing working environment	1	1	2	1	1	0.224	0.447
Management Policies	0	1	1	1	3	0.548	1.095
Government rules and regulations	0	1	2	2	1	0.419	0.837
Procurement processes and policies	1	1	2	1	1	0.224	0.447

The findings in table 4.4 show that when the respondents were asked on the major reasons for outsourcing in their corporations, one of the respondents (17%) indicated that the competition for professional services influenced outsourcing to a minimal extent, 1 respondent was not sure, 2 of the respondents indicated, "to some extent" and the other 2 respondents indicated, "to a great extent". On whether, operational costs in these corporations influenced outsourcing, while one respondent was not sure, the other 5 agreed that the operational costs influenced outsourcing to some extent. On whether the nature of business of the Corporation influenced the decision to outsource, the mean of 0.354 showed that the respondents were not sure of whether it influenced or not.

With regards to changing working environment, while 1 respondent indicated "to no extent", 1 indicated "minimal extent", 2 were not sure, 1 indicated "to some extent" and the other indicated "to a great extent". As concerns management policies, while 3 respondents indicated "to a great extent", 1 indicated "to not extent", 1 was not sure and 1 indicated "to a minimal extent". With regards to Government rules and regulations, while 1 respondent indicated, "to a great extent", 2 indicated "to some extent", 2 were not sure and 1 indicated "minimal extent".

The responses regarding procurement processes and policies were as follows: - No extent – 1 respondent; minimal extent – 1 respondent; not sure – 2 respondents; some extent – 1 respondent; great extent – 1.

Further, the respondents were asked to indicate the extent to which they agreed or disagreed that the listed factors had influenced effectiveness of outsourcing services in their respective organizations. The responses are summarized and presented in table 4.5 below. ***Where:*** Strongly disagree = **(1);** Disagree = **(2);** Somehow agree = **(3);** Agree = **(4);** Strongly disagree = **(5)**

Table 4.5: Factors that influence effectiveness of outsourcing in public hospitals in Kenya

Factors that influence effectiveness of outsourcing	Response (%)						
	(1)	(2)	(3)	(4)	(5)	Mean score	Standard deviation
Capacity to develop policy directives and regulatory framework	0	1	2	2	1	0.419	0.837
Capacity to streamline and strengthen the tendering procedures	0	1	1	2	2	0.419	0.837
Capacity for contract enforcement and monitoring	1	1	1	1	2	0.224	0.447
Capacity to assess costs and needs	0	1	2	2	1	0.419	0.837
The development of information systems and related human resources	1	1	2	2	0	0.419	0.837
The capacity of the private sector to take on direct provision	0	1	2	2	1	0.419	0.837

4.3.3 Benefits derived from outsourcing

In order to meet the second objective of the study, "to establish the benefits derived from outsourcing of services in state corporations in Kenya", the respondents were asked to indicate the extent to which their respective organizations had realized each of the listed benefits as a result of outsourcing certain services. The responses are summarized and presented in table 4.6 below. ***Where:*** Not at all = **(1);** Neutral = **(2);** Somehow = **(3);** Much **(4);** Very Much **(5)**

Table 4.6: Benefits derived from outsourcing

Benefits derived from outsourcing	Responses (%)						
	(1)	(2)	(3)	(4)	(5)	Mean score	Standard deviation
Introduction of workforce flexibility by outsourcing the peripheral workforce	0	1	1	2	2	0.419	0.837
The problem of managing industrial relations is minimized	0	1	2	2	1	0.419	0.837
Increase the proportion of white collar employees at the expense of blue-collar employees, a move aimed at improving the status of manager	1	1	2	1	1	0.224	0.447
Reduced costs and increased efficiency	0	0	1	2	3	0.652	1.304
Focus on core competencies (the specialized nature of an organization's competitive advantage)	1	1	1	1	2	0.224	0.447

4.3.4 Challenges of implementation of outsourcing of services in public hospitals in Kenya

In order to meet the third objective of the study, "To determine the challenges to effective implementation of outsourcing of services in state corporations in Kenya", the respondents were asked to indicate the extent to which they agreed or disagreed that listed challenges had affected effectiveness of implementation of outsourcing in their respective organizations. The responses are summarized and presented in table 4.7 below. ***Where:*** Strongly disagree (1); Disagree (2); somehow agree (3); Agree (4); Strongly Agree (5)

Table 4.7: Challenges of implementing outsourcing

Challenges of implementing outsourcing	Response (%)						
	1	2	3	4	5	Mean score	Standard Deviation
Lack of clear policy framework and guidelines	1	1	1	2	1	0.224	0.447
Weak enforcement mechanisms	0	1	1	2	2	0.419	0.837
Centralized and lack of transparency in outsourcing	1	1	1	1	2	0.224	0.447
Contracts do not always meet the specific needs of user-institutions	0	1	2	1	2	0.419	0.837
Opposition from the staff and resistance to change	0	0	1	2	3	0.652	1.304
If a services provider does not have efficiency, then it is unlikely to expect efficiency transfer to clients	0	1	2	1	2	0.419	0.837
The external systems may not be compatible with internal ones	1	1	1	2	1	0.224	0.447
One time results from outsourcing are unsuitable and costs are likely to escalate because of the power asymmetries that enable the service provider to charge high premium for add-on-services	1	1	1	2	1	0.224	0.447
Lack of user involvement in design – over engineered applications	0	2	1	1	2	0.419	0.837

4.3.5 Interventions for enhancement of outsourcing of in public hospitals in Kenya.

In order to meet the fourth objective of the study, "To establish possible interventions that could be employed to enhance effectiveness of outsourcing of services in state corporations in Kenya", the respondents were asked to list and briefly explain the possible interventions that could be employed to enhance effectiveness of outsourcing of services in their respective organizations.

The respondents indicated that the organizations need to focus on their core competencies, benefit from cost savings and manage workloads more efficiently. The initiatives given by the respondents are summarized and presented as follows:

The organization should try to outsource project management responsibility: Inefficiencies related to misunderstood expectations and increased tension between the service provider and the company would then be reduced. Project management can be performed externally; however, this should be done with a third party provider that has clearly defined key performance measures.

The outsourcing project scope ought to be defined: If the scope is too large or not well defined, it will cause problems for any type of project. There is need to gain crucial organization know-how and build relationships that will serve as a solid foundation for future, more comprehensive outsourcing initiatives.

There is need to clearly define expectations from the project: Reasonable, measurable, documented expectations are necessary to determine success or failure of the outsourcing effort. Without upfront investment in proper planning, the benefits of outsourcing will diminish quickly.

The need to clearly define the Key performance indicators: It is critical to imperative to establish the key performance indicators (KPI's) prior to initiating the outsourcing process. KPI's should include delivery dates, quality measurements and financial measures. It is important to review the KPI's on a regular basis and have mechanisms in place to resolve performance issues when KPI's are not met.

The need to effectively manage internal conflicts / politics: Outsourcing is a very sensitive issue and internal conflicts/ politics, if not well managed, could affect the effectiveness of the process. Managing these issues as soon as possible will help prevent them from escalating throughout the organization. Pro-active change management initiatives can help reduce the likelihood of such conflicts.

Business case / total costs are not realistic: If it sounds too good to be true, it probably is. Costing outsourcing engagements requires more that the simple calculation of (number of hours) x (rates). Investment in process changes, infrastructure and external support should be factored into the equation as well as internal project management time.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

The findings of the study were as follows:

The type of services outsourced by public hospitals in Kenya:- Information Technology; Human Resources; Facilities and real estate management; Accounting and Auditing; Cleaning Services; Customer Care; Security services; and Maintenance of the Information Technology system and equipment.

The findings further show that the following are the factors that influence outsourcing of services in state corporations:- Competition for professional services; Operational Costs; Nature of business of the corporation; Changing working environment; Management Policies; Government rules and regulations; and Procurement processes and policies

The findings also show that the following are the benefits derived from outsourcing of services:- Introduction of workforce flexibility by outsourcing the peripheral workforce; The problem of managing industrial relations is minimized; Increase the proportion of white collar employees at the expense of blue-collar employees, a move aimed at improving the status of manager; Reduced costs and increased efficiency; and Focus on core competencies (the specialized nature of an organization's competitive advantage).

The findings of study indicate that the major challenges faced by state corporations in Kenya in implementation of outsourcing process include the following:- Lack of clear policy framework and guidelines; Weak enforcement mechanisms; Centralized and lack of transparency in outsourcing; Contracts do not always meet the specific needs of user-institutions; Opposition from the staff and resistance to change; If a services provider does not have efficiency, then it is unlikely to expect efficiency transfer to clients; The external systems may not be compatible with internal ones; One time results from outsourcing are unsuitable and costs are likely to escalate because of the power asymmetries that enable the service provider to charge high premium for add-on-services; and Lack of user involvement in design – over engineered applications.

The findings of study indicate that the possible interventions that organizations could employ to enhance effectiveness in outsourcing include:- The organization should try to outsource project management responsibility; The outsourcing project scope ought to be defined; There is need to clearly define expectations from the project; The need to clearly define the Key performance indicators; The need to effectively manage internal conflicts / politics; and Business case / total costs are not realistic

5.2 Conclusion

The findings of the study concerning the factors that influence outsourcing of services in the state corporations are corroborated by the literature review. These factors include:- Competition for professional services Shawn *et al.,* 2003); Operational Costs (Kee and Matherly, 1996); Nature of business of the corporation (Jones, 1997); Changing working environment (Earl, 1996); Management Policies ; Government rules and regulations; and Procurement processes and policies

The findings of the study show that the following are the factors that influence effectiveness of outsourcing of services in the state corporations in Kenya:- Competition for professional services; Operational Costs; Nature of business of the corporation; Changing working environment; Management Policies; Government rules and regulations; and Procurement processes and policies. This is in line with findings from the literature review (Eisenhardt, 1989).

The literature review concurs with the findings from respondents that some of the major benefits of outsourcing include, curtailing costs owing to competitive scale economies with external vendors (Teng, Cheon and Grover, 1995); enabling focus on core competencies and freeing up resources (Udo, 2000); bridging of the skills gap of clients (Heeks, 2001), and adding strategic value (Tereska, 1990). The Null Hypothesis, "Adoption of outsourcing by retail organizations leads to reduction in procurement costs" is thus confirmed.

5.3 Recommendations of the study

5.3.1 Recommendations for policy and practice

Based on findings of the study, it is expected that the stakeholders, who include outsourcing practitioners and systems suppliers will gain a better understanding of effects of outsourcing on organizational performance.

An effective outsourcing process will allow suppliers to provide satisfactory quality, service and price within a timely delivery schedule. The basic tenet of outsourcing is straightforward: acquire the right item at the right time, and at the right price, to support organizational actions while concentrating on core organizational activities. Although the formula is simple - it involves questions of accountability, integrity and value with effects far beyond the actual buyer/seller transactions at its center. A serious and sustained review of such decisions is needed to properly manage the outsourcing system.

It is commonplace today for business managers to concentrate on their core competencies and outsource their non-core activities to a limited number of suppliers, who are normally regarded as strategic partners. Many managers believe that only by doing this is it possible to achieve significant improvements in supply chain management.

Findings of the study indicate that over the years, organizations have often failed to make appropriate decisions when they undertake outsourcing and supply chain management initiatives. The most common reason for the failure in this area arises because practitioners fail to understand the twin problems of adverse selection and moral hazard.

The key to success for practitioners in outsourcing and supply chain management is the ability to find

better ways to manage buyer and seller relationships so that value can be appropriated more effectively by buyers from, or in conjunction with, their suppliers. Working with companies in outsourcing and effective supply chain management has demonstrated that the most common difficulty faced by practitioners is nearly always associated with an inability to avoid the problems of adverse selection and moral hazard.

Adverse selection refers to a process by which practitioners fail to understand their pre-contractual power situation. They make inappropriate sourcing decisions and select the wrong suppliers. Moral hazard refers to a process by which practitioners fail to create effective contractual safeguards pre-contractually, so that they become highly dependent on opportunistic suppliers post-contractually at the first tier of supply and then throughout the multitude of tiers in the supply chain.

These problems normally occur because of an inability by practitioners to understand the attributes of power that provide opportunities for buyers or sellers to have effective leverage over others in business relationships. Whenever practitioners operate within any buyer/supplier relationship, an objective situation of power must exist between the two parties to the exchange.

The three questions that must always be asked by any practitioners are as follows: (i) What is the objective power circumstance that we are experiencing in any business relationship?; (ii) Under this objective circumstance, what is the most appropriate way to manage this current power relationship?; and (iii) To what extent is it possible to shift this current balance of power from where it currently stands to one that is more favorable to our interests in the future?

In addition, circumstances that face outsourcing practitioners vary widely in terms of power. Practitioners need tools and techniques – like the power matrix – to enable them to understand their objective circumstances. This is important for their immediate relationships with suppliers and when they need to manage the complex and different types of power regimes that underpin their supply chains.

Once they have achieved this, they also need to understand the range of relationship choices that are available to them and an ability to choose wisely from the relationship-management choices available.

5.3.2 Recommended areas of Further Research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: - (i) Whereas the current study focused on responses from the management of the hospitals, future studies should focus on responses from the systems suppliers; and (ii) Future studies should seek to establish the nature, extent and adoption profile of outsourcing within the private and public organizations in Kenya.

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APPENDIX I: NYERI PROVINCIAL GENERAL HOSPITAL ESTABLISHMENT (FIRST QUARTER 2010/2011)

NO.	CATEGORY OF STAFF/FUNCTIONAL AREA	NUMBER
1	ADMINISTRATION	4
2	DENTAL OFFICERS	4
3	DENTAL TECHNOLOGISTS	4
4	PHARMACISTS	6
5	PHARMACIST INTERNS	2
6	PROCUREMENT/STORES	3
7	LABORATORY	17
8	SUBORDINATE STAFF	20
9	CLERICAL OFFICERS	16
10	RECORDS MANAGEMENT OFFICERS	1
11	RADIOGRAPHERS	7
12	OCCUPATIONAL THERAPISTS	6
13	TELEPHONE OPERATORS	8
14	OTHOPAEDIC TECHNOLOGITS	2
15	PUBLIC HEALTH OFFICERS	2
16	REGISTERED CLINICAL OFFICERS	23
17	HEALTH RECORDS INFORMATION OFFICERS	7
18	TRANSPORT (DRIVERS)	6
19	HOSPITAL MAINTENANCE UNITS	9
20	PLASTER	4
21	ARTISANS	3
22	SOCIAL WORKER	1
23	BOILER ASSISTANTS	2
24	PHYSIOTHERAPISTS	8
25	MORTUARY ATTENDANTS	2
26	CHARGEHANDS	5
27	NUTRITIONISTS	4
28	CONSULTANTS	14
29	MEDICAL OFFICERS	16
30	INTERN DOCTORS	24
31	ECN/NURSING OFFICERS	252
32	DEVELOPMENT PARTNERS' EMPLOYERS	28
TOTAL		**510**

Source: Nyeri Provincial General Hospital, June 2010

APPENDIX II: COAST ROVINCIAL GENERAL HOSPITAL ESTABLISHMENT (FIRST QUARTER 2010/2011)

NO.	CATEGORY OF STAFF/FUNCTIONAL AREA	NUMBER
1	CONSULTANTS	24
1	MEDICAL OFFICERS	28
2	MEDICAL OFFICERS INTERNS	33
3	DENTAL OFFICERS	9
4	DENTAL OFFICERS INTERNS	4
5	NURSES	360
6	NURSES ON CONTRACT	12
7	PHARMACICTS	8
8	PHARMACIST INTERNS	3
9	HEALTH ADMINISTRATIVE OFFICERS	3
10	ACCOUNTANT	1
11	ACCOUNTS ASSISTANT	1
12	PROCUREMENT OFFICER	1
13	REGISTERED CLINICAL OFFICERS	25
14	RADIOGRAPHERS	7
15	PHYSIOTHERAPISTS	16
16	LABORATORY TECHNOLOGISTS	26
17	PUBLIC HEALTH OFFICERS	5
18	NUTRITIONISTS	5
19	COOK	1
20	OCCUPATIONAL THERAPISTS	6
21	HEALTH RECORDS & INFORMATION OFFICERS	9
22	HUMAN RECORDS TECHNICIANS	1
23	HMU TECHNOLOGISTS	7
24	ARTISANS	1
25	CLERICAL OFFICERS	7
26	STORE MAN	1
27	SOCIAL WORKER	1
28	SUBORDINATE STAFF	26
29	DRIVERS	4
30	MORTUARY ATTENDANTS	1
31	COMMUNITY ORAL HEALTH OFFICERS	2
32	TYPISTS	3
33	DENTAL TECHNOLOGISTS	5
34	PHARMACY TECHNOLOGISTS	3
35	CATERESS	1
36	CASUALS	94
TOTAL		**744**

SOURCE: Coast Provincial General Hospital, June 2010

ANNEX III: DATA CAPTURE SHEET – NYERI PROVINCIAL GENERAL HOSPITAL

MONTH	YEAR											
	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost
JULY	12,662	621,360.00	14,489	621,360.00	10,434	621,360.00	13,154	645,658.00	12,192	663,730	12,291	977,910
AUGUST	13,732	621,360.00	13,643	621,360.00	13,445	621,360.00	12,014	645,657.00	12,648	656,830	12,262	930,990
SEPTEMBER	13,201	621,360.00	12,864	621,360.00	13,249	621,360.00	12,206	645,657.00	10,237	635,175	11,422	976,125
OCTOBER	8,066	621,360.00	9,898	621,360.00	11,415	621,360.00	14,548	645,657.00	12,213	506,470	11,472	-
NOVEMBER	13,034	621,360.00	11,523	621,360.00	10,259	621,360.00	13,280	645,657.00	11,693	895,060	12,177	-
DECEMBER	13,871	621,360.00	12,949	621,360.00	10,737	621,360.00	17,620	645,657.00	10,438	871,655	13,679	-
JANUARY	7,748	621,360.00	11,163	621,360.00	12,111	621,360.00	11,939	645,657.00	14,189	735,280	12,783	735,280
FEBRUARY	9,721	621,360.00	11,231	621,360.00	15,441	621,360.00	12,355	645,657.00	13,103	677,660	13,264	677,660
MARCH	8,855	621,360.00	12,791	621,360.00	13,542	621,360.00	13,729	645,657.00	14,017	891,950	13,002	891,950
APRIL	9,273	621,360.00	12,652	621,360.00	14,821	621,360.00	12,989	645,657.00	13,205	761,940	12,291	761,940
MAY	7,906	621,360.00	16,974	621,360.00	12,300	621,360.00	13,622	645,657.00	12,909	979,745	12,262	979,745
JUNE	9,482	621,360.00	15,886	621,360.00	12,691	621,360.00	14,629	645,657.00	13,061	982,471	11,422	982,471
TOTAL	155243	7,456,320	156,063	7,456,320	150,445	7,456,320	162,085	7,747,885	149,905	9,257,966	148,327	

(Bed Capacity – 400 beds and 80 Cots)

SOURCE: Nyeri Provincial General Hospital, June 2010

ANNEX IV: DATA CAPTURE SHEET – COAST PROVINCIAL GENERAL HOSPITAL

MONTH	YEAR											
	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost	Bed occupancy	Catering cost
JANUARY	15,341		15,514				13,202		12,360			
FEBRUARY	14,243		14,115				12,832		12,198			
MARCH	15,776	2,841,699.75	15,683	2,841,699.75	15,058	2,434,900	15,184	2,615,530.50	13,353	5,115,531		
APRIL	15,270		15,798				14,903		13,282			
MAY	16,232		15,925		14,779		16,180		13,630			
JUNE	15,947	2,841,699.75	14,985	2,841,699.75	11,323	2,434,900	14,990	2,615,530.50	13,176	7,500,000		
JULY	15,350		14,796		11,783		14,357		12,930			
AUGUST	14,952		14,685		13,859		13,713		12,974			
SEPTEMBER	13,450	2,841,699.75	13,909	2,841,699.75	11,301	2,434,900	13,315	2,615,530.50	12,430	2,615,531		
OCTOBER	15,204		14,263		12,060		13,050		12,607			
NOVEMBER	15,110		13,960		12,386		13,502		12,225			
DECEMBER	14,002	2,841,699.75	14,419	2,841,699.75	13,592	2,434,900	13,290	2,615,530.50	11,538	2,115,531		
TOTAL	180,877	11,366,799	178,052	11,366,799	101,083	9,7739,600	168,518	10,462,122	152,703	17,346,593		

(Bed Capacity – 700 - 632; Emergency – 42; Maternity – 22; ICU - 4)

Source: Coast Provincial General Hospital, June 2010

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