INTERNATIONAL JOURNAL OF SOCIAL Sciences and Information Technology
ISSN 2412-0294 www.ijssit.com
http://www.ijssit.com

FACTORS INFLUENCING THE IMPLEMENTATION OF OUTSOURCING STRATEGY: A CASE STUDY OF KENYATTA NATIONAL HOSPITAL IN NAIROBI, KENYA

[1*] **Martha Wangui Migunda**
MSc Procurement and Logistics Student
Jomo Kenyatta University of Agriculture and Technology
marthawangui.mw@gmail.com

[2**] **Professor Gregory Namusonge**
Jomo Kenyatta University of Agriculture and Technology
gnamusonge@gmail.com

Abstract

The purpose of the study was meant to evaluate the influence of competitive bidding on implementation of outsourcing strategy. A census method was adopted where all the 40 staff involved in Procurement Department were issued with questionnaires. Literature was reviewed to seek various opinions and views from different authors in the area under study. The theories such as transaction cost theory and resource dependency theory were reviewed to theoretical framework to give general insights on the different variables influencing implementation of outsourcing strategy. The conceptual framework was presented giving relationship between the dependent and independent variable. Data collected was analysed using both descriptive and inferential statistical tools and SPSS version 22.0 was used to process the collected data which was then to be presented in form of tables. Correlation analysis was used to describe the strength of the linear relationship between two variables. The findings of the study revealed that the competitive bidding plays a significant influence on implementation of outsourcing strategy in Public Entities. The management should adopt outsourcing as a strategic initiative to enhance competitiveness, performance and responsiveness of the various processes. The management should provide the required support through monitoring and control of the quality of service delivery to realize the designed benefits of cost reduction, improved efficiency and increased performance by effectively managing the contracted party. It is also recommends that management outsources processes that exhibit high manpower costs and demonstrate inefficiency in the various levels of the value chain. These shall deliver cost leadership through effective contract management. It also recommends that outsourcing should not only be subjected to the traditionally non-core activities, but the whole of those activities that a third party can deliver at lower cost than can be done in-house, with adequate management control on quality of delivery.

Keywords: *competitive bidding, outsourcing strategy, public entities*

1. BACKGROUND OF THE STUDY

Men Health care is a critical part of a country's economy both from the national and local perspectives. However, the economic shifts in Kenya as resulted in deviations in demand and delivery of healthcare services (Roberts *et al.*, 2001). Over the long term, as populations grows there will be a growing demand for healthcare at affordable rates. Subsequently, this will call for a better integration of implementing outsourcing strategy with taking in action factors like competitive bidding, procurement planning, shorter lead time and procurement procedure and its effects on economic cost and customer satisfaction. It is very important that policy makers in developing countries with poor settings identify the key barriers to healthcare before embarking on expensive healthcare programmes, whose success relies on good existing health infrastructures (Lagarde & Palmer, 2009). Improvements in the economy and employment and the implementation of new regulations seemed to have contributed to the success. Continued macroeconomic stability plus further efforts to improve the efficiency bode well for the system's financial sustainability ("Financing health in middle-income countries," World Bank, 2010).

According to the Outsourcing Institute (2001) outsourcing can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Outsourcing is a strategic tool used by companies to improve their ability to concentrate on the core competencies, outsourcing non-core functions. Outsourcing is not contracting or fixing business processes. It is about creating value. It is about reengineering and being able to provide customers a greater value faster, at a lower cost and higher quality. The term outsourcing refers to contracting out of non-core activities (Baily et al., 2005). Though this is not an indication that the activities to be outsourced are less important. Quelin & Duhamel (2003) states that outsourcing is concerned with the external provision of functional activity and thus outsourcing decisions are strategic in nature.

Ogada (2007) argues that a strategy is a unifying part of a decision that help in identifying purposes, goals, objectives and priorities of the organizations. Strategy also helps the organization create competitive advantage as the organization needs to be aware of what the competitors do to effectively compete. Strategy helps in defining the obligations of the organization to its stakeholders as well as defining its specific business in terms of geographic scope. Johnson & Scholes (2003) further states that the success of any company or organization depends on how new strategies are crafted to enable countering of factors that are thrown by environment. Healthcare industries are operating under environment full of rising cost of healthcare, increased adoption of technology, prevalence of quality and performance-based reimbursement models, evolving physician-hospital -patient dynamics and increased competition which are forcing the healthcare industry to recast business and care delivery processes. By leveraging outsourcing, healthcare companies are redefining their operating model to maximize value from their business processes. In 21st Century, Hospitals and Healthcare industries in Kenya are facing increased financial difficulties because of the high cost of living experienced in the country and the private are not an exception. A steep rise in the cost of living has pushed Nairobi up the list of Africa's most expensive cities and diluted the quality of life for its residents, a newly published report indicates. This in itself has a spiral effect on the cost of healthcare services in the country. As a result, healthcare executives need to reduce costs while maintaining quality patient care. One of the strategic tools healthcare executives are using to meet this is through outsourcing (Ndede, 2005).

2. STUDY OBJECTIVE

The objective of the study is to evaluate the influence of competitive bidding on implementation of outsourcing strategy in Kenya.

3. LITERATURE REVIEW

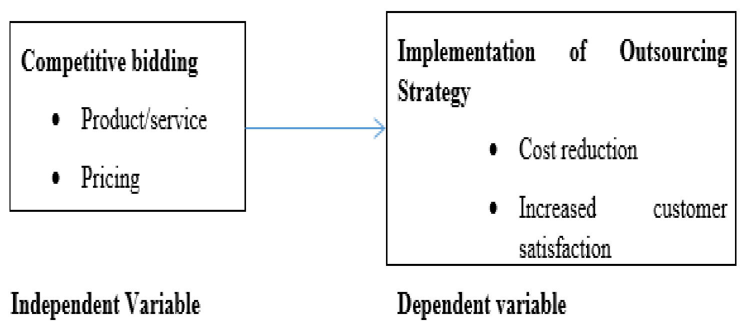
Competitive bidding is an integral part of many businesses generating substantial revenues. On products that are standard or similar, the primary purchase criterion is price. Within this highly competitive environment, it is common practice in many industries to require all interested firms to submit a sealed bid for a given contract to supply goods or services. This includes many manufacturers and service organizations that are selling to other manufacturers of original equipment, as well as wholesalers, retailers, federal, state, and municipal governments, and others. The contract is awarded to the firm with the lowest bid. The process of developing a bid requires the manager to rely on a high level of quantitative and intuitive skills in determining the price (Rothkopf, 2007).

Outsourcing is a management strategy by which an organization invites other organizations in a competitive bidding venue involving more efficient specialty service providers, to provide major, noncore functions for the host organization. Outsourcing is often referred to as Competitive Sourcing. It pits the organization service unit performing the function to become a competitive bidder against independent private contractors to perform the government support function of that organization unit (Raymond, 2004).

Competitive bidding has long been an essential component of competition in the business arena. While a traditional method used by industrial firms in choosing suppliers/vendors and in making major purchases, competitive bidding has become increasingly important to the service sector (Green *et al.,* 1994). With the continually increasing emphasis on controlling the spiralling costs of health care delivery, competitive bidding has been prominently presented as an integral part of what has become known as the concept of "managed competition" (Paringer & McCall, 1991). The numerous benefits to be gained by effective use of competitive bidding are enormous. The process enhances the buyers ability to negotiate the lowest price of the goods or services needed, assist the buyer in defining quality through thoroughly written specifications, and forces all potential sellers to declare the "best'' price prior to the final negotiation (Green *et al.,* 1994).

Dwyer *et al.*, (1998) outlines the stages of the competitive bidding process are: first the social stage which is characterized by courtesy calls, during this stage, special empathizes is given to the process of developing buyer- seller relationships; the second stage is the specifications stage. The stage encompasses the period of time between the initiation of a project and the letting of bids as the name implies this stage determines the degree of detail and level of specificity of the request to bid; the final stage acknowledges that negotiations are integral part of the competitive bid process and fundamental to nature of modern price determination. Namusonge (2015) carried out a study on factors affecting performance of the procurement function in Kenya. He considered factors such as competitive bidding, aggregation of procurement and legal framework.

4. CONCEPTUAL FRAMEWORK



5. RESEARCH METHODOLOGY

This chapter sets out the methodology which was used in carrying out the research. It focused on research design, target population, census, data collection instrument, data collection procedure, pilot test and data analysis and presentation. The study employed a descriptive research design which according to Best and Khan (2010) is non-experimental in that it deals with relationships between non-manipulated variables in a natural rather than artificial setting. The target population included forty (40) respondents involved in the procurement in KNH. The respondents were divided into three categories namely Procurement, Logistics and Warehousing and Finance. A census method was used in this study where all the 40 staff in the three categories were issued with questionnaires. Cooper and Schindler (2008) assert that a census is a count of all the elements in a population. Primary data was collected using a questionnaire covering the factors influencing the implementation of outsourcing strategy. The questionnaires were distributed to the respondents directly and then later collected. Descriptive statistics was applied to analyse quantitative data with the aid of Statistical Package for Social Sciences (SPSS) Version 22. Qualitative data was coded in line with the study's research questions, summarized and analysed to determine frequency of emerging themes. Correlation analysis was used to describe the strength of the linear relationship between two variables.

6. FINDINGS OF THE STUDY

Competitive bidding

Table 1

Statements	Strongly Agree (%)	Agree (%)	Neither agree or disagree(%)	Disagree (%)	Strongly Disagree (%)
Determines the lowest price.	32.5	47.5	10.0	7.5	2.5
Achieves the best supplier.	42.5	37.5	12.5	0.0	7.5
Is practiced in the organization.	20.0	50.0	10.0	15.0	5.0
Expensive.	30.0	55.0	0.0	10.0	5.0
Time consuming.	52.5	27.5	5.0	15.0	0.0

Table 1 above, indicates that majority of the respondents agreed on the following statements regarding competitive bidding on implementing outsourcing strategy; determines the lowest price with (45.7%) of respondents who agreed with the opinion. Whereas (42.5%) of the respondents strongly agreed that competitive bidding contributes in achieving the best supplier. Majority (50.0%) of the respondents agreed that competitive bidding is practiced in the organization, as well as (55.0%) of the respondents agreeing that competitive bidding is expensive and majority (52.5%) of the respondents strongly agreed that it is time consuming. Majority of the respondents indicated that other aspects of competitive bidding are: Multisourcing and single sourcing.

Correlation Results

Competitive bidding was found to be positive and significantly relating to implementation of outsourcing (r = 0.346, p-value = 0.000).

Correlations Matrix

		Implementation of outsourcing strategy	Competitive bidding
Implementation of outsourcing strategy	Pearson Correlation	1	.346*
	Sig. (2-tailed)		.029
	N	40	40
Competitive bidding	Pearson Correlation	.346*	1
	Sig. (2-tailed)	.029	
	N	40	40

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics R Square Change	F Change
1	.703[a]	.495	.437	.304	.495	8.565

a. Predictors: (Constant), competitive bidding

b. Dependent Variable: Implementation of outsourcing strategy

The model analysis of regression is shown in the table above. Regression indicates the strength of the relationship between the independent variable (competitive bidding) and the dependent variable (implementation of outsourcing strategy). The R square value in this case is 0.495 which clearly suggests that there is a strong relationship between competitive bidding and implementation of outsourcing strategy. This indicates that competitive bidding has a variation of 49.5% of implementing the outsourcing strategy.

Interpretation

a) R- correlation coefficient

The shows R= 0.703 which means the correlation between independent variable and dependent variable is 70.3%, giving strong positive correlation coefficient.

b) R^2 – Coefficient of Determination

R^2 measures goodness of fit. It showed that 49.5% of the dependent variables explained by independent variable.

c) Adjusted R- Square

This measures adjustment to error correlation by using the degree of freedom.

ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.166	4	.791	8.565	.000[b]
	Residual	3.234	35	.092		
	Total	6.400	39			

a. Dependent Variable: implementation of outsourcing strategy
b. Predictor: (Constant) competitive bidding.

The ANOVA table indicates that the overall model was a statistically significant as given by (F-value=8.565 and p-value=0.000<0.05).

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.185	.204		5.821	1.185
	Competitive bidding	.225	.063	.450	3.585	.225

a. Dependent Variable: implementation of outsourcing strategy

The general model was given as $Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4$

From table 2 the estimated regression (used to estimate implementation of outsourcing strategy) is given as; $Y= 1.185+0.225X_1+0.164X_2+0.117X_3+0.045X_4$

Competitive bidding was found to have a positive linearly significant influence on implementation of outsourcing strategy($\beta = 0.225, p = 0.005 < 0.05$). Here one-unit Competitive bidding results in 0.225 unit increase in implementation of outsourcing strategy.

7. SUMMARY OF THE MAJOR FINDINGS

The research revealed that competitive bidding influences implementation of outsourcing strategy where by it calls for bidders to offer competitive prices as well as quality order to win the tenders. There was an indication that 47.5% agreed that organization subjects bidders to competitive bidding to ensure they determine the lowest prices because competitive bidding reduced the cost of goods/services due to the fact that if a supplier increases cost of his goods/services, someone else is ready to supply the same goods/services at lower price, therefore prices offered were reasonable. 42.5% of the respondents strongly agreed that they can also obtain best supplier. 50% of the respondents agreed that it is practiced in the organization and this is probably because they would rather use other ways of procuring to serve their own interests. 55% and 52.5% of the respondent agreed that it was time consuming and expensive because of nature tender documents. This also forced them to explore other options other than competitive bidding thus reducing cost and meeting customer satisfaction.

8. CONCLUSIONS

The conclusions that were made in this study were based on the findings discussed above and respondents. It was concluded that competitive bidding influenced the implementation of outsourcing strategy in public entities. This was because the respondent agreed that it reduced cost of products/services and also led to more tenders coming in. this was because competitive bidding seemed to be the most open way in which trust was built within the bidding process therefore opening avenues for many to participate. Those who were against said it was expensive and time consuming.

9. RECOMMENDATIONS

The management should adopt outsourcing as a strategic initiative to enhance competitiveness, performance and responsiveness of the various processes. The management should provide the required support through monitoring and control of the quality of service delivery to realize the designed benefits of cost reduction, improved efficiency and increased performance by effectively managing the contracted party. It is also recommends that management outsources processes that exhibit high manpower costs and demonstrate inefficiency in the various levels of the value chain. These shall deliver cost leadership through effective contract management. It also recommends that outsourcing should not only be subjected to the traditionally non-core activities, but the whole of those activities that a third party can deliver at lower cost than can be done in-house, with adequate management control on quality of delivery.

The management should take legal precautions against the third parties offering the services or products being outsourced to prevent information leaks or a bleach of company privacy. The top management should ensure that the procurement departments are involved in all procurement and contract related activities as this will help in ensuring that contracts are awarded to the right bidders and that contract terms and conditions are adhered to.

REFERENCES

Baily, P., Farmer, D., Jessop, D. & Jones, D. (2005). Purchasing Principles and Management. 9th Edition, Prentice Hall London.

Cooper, C. R., & Schindler, P. S. (2008). Business Research Methods. Boston: McGraw-Hill.

Dwyer, F.R., Schurr, P. and Oh, S. (1987). Developing buyer-seller relationships. Journal of Marketing. Vol. 51, pp. 11-27.

Green, R., Zimmer, W., and Steadman, E, (1994). The Role of Buyer Sophistication in competitive Bidding. Journal of business and industrial marketing, 9 (1), 51-59. MCB University.

Johnson, G. & Scholes, K. (2003). Exploring Corporate Strategy, 6th Edition, Prentice Hall.

Lagarde, M., & Palmer, N. (2009). The impact of contracting out on health outcomes and use of health services in low and middle-income countries. Cochrane Database of Systematic Reviews (Online), (4), CD008133. doi:10.1002/14651858.CD008133.

Namusonge, G. (2015). Factors Affecting Performance of the Procurement Function in Kenya Public Secondary School. A case Study of Gatundu District. International Journal of Academics Research in Business and Social sciences. Vol 5 No 4.

Ogada A.O. (2007). Strategic change management at the Wrigley company. Africa (unpublished MBA project, 6(4) 92-124.

Paringer, L. and McCall, N. (1991). How Competitive is Competitive Bidding?", Health Affairs, Winter, pp. 220-30. [Google Scholar] [Crossref], [ISI].

Quelin, B. & Duhamel, F. (2003). Bringing together strategic outsourcing and corporate strategy: Outsourcing motives and risks. European management journal, Vol. 21, No. 5, pp. 647-661.

Roberts, S., Forrest, B. G., Will, T., Ashwini, N., & Wininger, E. (2001). A Practitioner's Perspective on the Role of a Third-Party Logistics Provider. Journal of Business& Economics Research, 6(6), 230-247.

Rothkopf, M. (2007). Decision analysis: The right tools for auctions. Decision Analysis, 4 (3), 167-172.