

**BUSINESS PROCESS OUTSOURCING AND FINANCIAL PERFORMANCE
OF CO-OPERATIVE BANK OF KENYA: A CASE OF CO-OPERATIVE
BANKS IN NAIROBI COUNTY.**

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**A RESEARCH PROJECT REPORT SUBMITTED TO THE SCHOOL OF
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AFRICA.**

JULY, 2018.

DECLARATION

This project report is my original work and has not been presented for a degree in any other University.

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This project report has been submitted for examination with my approval as University Supervisor.

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Signature

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Date

DEDICATION

This research project report is dedicated to the following people who have been my motivation and mainstay; my parents Mr. and Mrs. Njung'e, my husband and my lovely children.

ACKNOWLEDGEMENT

Special appreciation to God for giving me an opportunity, time and resources, peace of mind and gift of life through my studies. In a special way I wish to acknowledge my dedicated supervisor Madam Juster Nyaga for good advice and guiding me throughout this enormous task with diligence. Thank you for your indefatigable encouragement and valuable critique during the project period. I will forever treasure your insight, wisdom and patience.

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LIST OF ACRONYMS AND ABBREVIATIONS

ATMS	Automated teller machines
BPO	Business process outsourcing
CBK	Central bank of Kenya
FPIC	Free prior and informed consent
IT	Information technology
ITO	Information technology outsourcing
SMEs	Small and medium enterprises
SPSS	Statistical package for the social sciences

OPERATIONAL DEFINITION OF TERMS

- Banking institutions:** These are entities that majorly offer banking services as directed or regulated by the Central Bank of Kenya under the banking Act.
- Business process outsourcing:** Refer to the act of sub-contracting services externally which could instead be offered internally by the management.
- Financial performance:** The extent or rate of return on investment applied to a business.
- Outsourcing:** An act of acquiring service from other vendors or companies.
- Performance:** The indication on whether an entity is generating income or operating at a loss.

ABSTRACT

Business process outsourcing refers to the act of sub-contracting services externally which could instead be offered internally by the management. Most organizations are now opting business process outsourcing as a business strategy or tool for enhancing operational efficiency and enjoying technical competence and monopoly of expertise. The major objective of this study was to establish the relationship between business process outsourcing and the financial performance guided by the specific objectives that involves; to assess how information technology (IT) outsourcing, security services outsourcing, call center services outsourcing and cleaning services outsourcing influence the financial performance of the Co-operative bank of Kenya. This study was of benefit to the management and to the Government in formulating and implementing policies. The study used a population of 90 respondents from which it comprised of Branch managers, Operations managers and Executive Customer Experience Relationship officers. Out of the 90 respondents, the study used 42 respondents by use of systematic sampling method. The study employed a descriptive as the research design. The study used both primary and secondary data collection methods by use of questionnaires and publications respectively which was analyzed and presented in form of tables and charts. The study confirmed that ICT outsourcing, security outsourcing, call centre outsourcing and cleaning service outsourcing improved financial performance of banks in Kenya. Banks should opt to outsource services that call for special technical know-how since it requires heavy capital investment in training the staff on the same. Further study need to be carried on micro finance institution or parastatals to establish whether the same results will be derived. Additionally, further research could be done on the same using different variables from the ones used in this study, or carried out on a different region geographically to establish if there will be imitative results.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This section presented a summary of an overview of research including but not limited to the backgrounds of the study, statement problem, the guiding objectives and research questions, significant or the value, research coverage and lastly chapter summary.

1.1 Background of the Study

Rapid change in technology and high degree in the level of competition among commercial banks has made stakeholders in financial industry to be more innovative and creative in coming up with measures of cutting cost and enhancing efficiency in their operations (Kaplan *et al* 1996). Banks in the last few years have retrenched most of their staff as an effort towards enhancing efficiency and effectiveness. Banks are now opting to outsource services externally in order to enjoy technical competence and reduce training costs (Kakabadse 2000).

Business process outsourcing refers to the act of sub-contracting services externally which could instead be offered internally by the management. Most organizations are now opting business process outsourcing as a business strategy or tool for enhancing operational efficiency and enjoying technical competence and monopoly of expertise (Brown 2007). The common services that are outsourced are among others; cleaning services, security services, logistics and research and development services. These services are provided by other firms or companies that have expertise in that area (McIvor 2009).

Business process outsourcing is important in that it helps companies to concentrate on their core business. For instance, in banks, their core business is providing banking services other than cleaning and security services among others. It also provides firms opportunity to enjoy technical expertise in certain areas like security which involves special techniques. Business process outsourced also help in cost reduction like cost of training staff to be well equipped in diversified areas like technology and security (Porter & Kramer 2009).

1.1.1 Banking Sector

The financial sector in the country is purely regulated and governed by Banking and companies Act. The Central Bank of Kenya serves as the watchdog and the regulator of banking industry in Kenya. The banks in Kenya have unanimously formed bankers associations that takes care of the interest of its stakeholders in line with the regulation by the Central Bank of Kenya (Strange, 2015).

This bank was registered in 1964 with the motive of mobilizing financial resources of their members with aim of providing banking services to the co-operative movement. It was duly registered under the banking act in 1968 which granted it the banking license to operate. Co-operative bank of Kenya by 2017 had established more than 150 branches country wide (Nugent, 2012).

Kenya has a total number of 44 banks under the banking industry comprising of 33 which are owned locally by local shareholders and 11 owned by foreign shareholders or investors. Banking industry under the control of Central Bank of Kenya (CBK) falls under the Ministry of Finance which formulates and implements fiscal and monetary policies for stabilizing and regulating the economic performance of the country (Mian, 2003).

Due to rapid change in technology and stiff competition, banks are now embracing innovation and creativity toward improving the quality of customer service. Among the few strategies adopted by banks are business process outsourcing, acquisition and mergers. There are issues affecting banking industry in Kenya among them; restrictive regulatory measure like interest rates, low interest rates and other traditional providers of finance who offer financial services (Ostrom, *et al* (2010).

1.1.2 Co-operative Bank's Financial Performance.

Performance is an indication of whether an entity is moving forward or deteriorating. It communicates whether a firm is gaining value or losing value. Financial performance on the other hand is the measure or indicator of whether there is gain or loss in amount of investment. Due to high competition and government regulation of the rate of interest, banks are now concentrating and focusing on their core banking

activities by sub-contracting certain services that are not among their central focus or require technical and specialized skills (Porter, 2008).

Performance is measured against achievement of the set targets or objectives. These targets can be real output of the organization or actual results. It is the performance that is sub-divided into financial and non-financial (McNair *at al* 1990). Financial performance is measured by use of profit growth, return on assets, and return on investment among other indicators. Financial performance proved very useful feedback to the shareholders and management pertaining the bank. It helps an organization or bank to enhance organizational performance (Bontis 2001).

1.2 Statement of the Problem

Business process outsourcing leads to lower operational costs, banks security risks as well as liability while concentrating on expanding their services, improving on creativity and innovation and exploring on new opportunities in the market (Weill & Broadbent, 1998). Business process outsourcing provides an opportunity to the banks to concentrate and focus on business main or core services. It also gives as added advantage of enjoying special expertise and professional skills which in turn enhances operational efficiency.

Business process outsourcing (BPO) in the past has not yielded good fruits. It has led to sub-standard services especially call centre service outsourcing. This has negatively impacted on performance and reputation of banks. The BPO firms have not adhered to the contractual agreement and this has led to sub optimality. Previous studies have been done on business process outsourcing. Emily (2009) on the study of relationship outsourcing of automated teller machines and performance of banks in Kenya found that outsourcing may bear fruits but sometimes it may have some risks underlying. Mukuna (2014) on performance of banks indicate that banks can enhance their performance through outsourcing of their non-core business services. This is the reason why I chose to undertake this research on business process outsourcing and financial performance of Co-operative bank of Kenya.

1.3 Objective of the Study

Major aim of the researcher was to examine how business process outsourcing (BPO) influence financial performance of Co-operative Bank of Kenya.

1.3.1 Specific objectives

The specific research objectives were:

- a) Assess how information technology (IT) outsourcing influences financial performance of Co-operative bank in Kenya.
- b) To establish how outsourcing security services affect financial performance of Co-operative bank ok Kenya.
- c) Establish how call center services outsourcing influence the financial performance of Co-operative bank of Kenya.
- d) Determine effect of cleaning services outsourcing on financial performance of Co-operative bank of Kenya.

1.4 Research Questions

The research questions were:

- a) How has information technology (IT) outsourcing influenced the financial performance of the Co-operative bank of Kenya?
- b) What is the impact of security services outsourcing on the financial performance of the Co-operative bank of Kenya?
- c) How has call center services outsourcing influenced the financial performance of the Co-operative bank of Kenya?
- d) How has outsourcing cleaning services influenced financial performance of the Co-operative bank of Kenya?

1.5 Significance of the Study

The research benefit below listed group of people;

1.5.1 The government

Government will be in rich of important information especially in formulating and implementing policies affecting Banks in Kenya. Banks through the Ministry of Finance and Central Bank of Kenya are highly regulated. The government in coming up with regulations will find this study helpful in formulating and implementing of relevant policies.

1.5.2 The management of banks

This study will provide relevant concept to the management of banks since they are directly involved in making decision regarding banks strategic and tactical management. Business process outsourcing is a strategy of cost cutting and enhancing efficiency, many a time, the decision is left at management level.

1.5.3 Future researchers and academicians

This research will be of benefit to any future researcher and academician who will want to undertake research in a similar field of study. Any future researcher and academician will use the work as a point of reference.

1.6 Scope of the Study

This study was carried out on Co-op bank branches in Nairobi County and nearby surrounding areas like Athi River, Mlolongo and Juja. The respondents targeted for this research were Branch managers, Operations managers and Executive Customer Experience Relationship Officers. The research was undertaken between the Month of March and July 2018 from which data collected was analyzed and presented inform of project report.

1.7 Limitations of the Study

There were various challenges and obstacles faced in carrying out the study. Owing to the rules and regulations of the banks operation policies, accessing the respondents

posed a challenge. Hence, the questionnaires were administered and collected at later date. Secondly, accessing important information proved to be a challenge due to the virtue of information privacy and confidentiality within banking industry, however the introductory letter gave the respondents confidence that their feedback was for study purposes only. Ensuring accuracy of information submitted was another challenge but I assured the respondents that the data collected would be treated with utmost confidentiality hence they were candid in their responses.

Financial constraints were experienced given that the study was self-sponsored with no external financial aid. Due to limited finances the study could not be carried out on the other bank officials and stakeholders whose input is important in making the outsourcing decisions of the banks. The time span for the research was limited there posing a challenge in carrying out exhaustive research on business process outsourcing and financial performance. The study however, constructed an effective research instrument that sought to elicit general and specific information on the extent of application of BPO strategy and the challenges of implementation or adoption of the business process outsourcing strategy.

1.8 Chapter Summary

The chapter expounded on the background of the Co-operative bank in Kenya. The study main focus was on information technology, call center services, security services and cleaning services outsourcing.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The section explored on theories related to the research, empirical study and summary of the empirical study, conceptual framework and operationalization of variables.

2.1 Theoretical Review

This is a re-look of the existing theoretical framework relevant to our study. The following theories are related to our study and help to understand better the phenomenon in order to explore and extent the existing field of knowledge.

2.1.1 Resource based view theory

Every other successful organization must have in place sound objectives or goals. To achieve those goals there must be enough resources that match the set objectives (Armstrong 2006). This theory have general assumption that organization to be competitive, it should be well spelled out in the strategic plan which is formulated and supported by the management (Hill, et al (2014). The management must act or serve as an example and role model. It assumes that management serves as head of other organizations. This theory is important in guiding an organization towards achieving and sustaining a competitive advantage (Tidd *et al* 2005).

This theory elaborates on how to deploy resources effectively in order to attain the competitive advantage. The theory emphasizes on how firm manages its activities towards optimizing on resources. These resources may include both tangible and intangible resources. (Oliver, *et al* 1997). Tangible resources are the tangible assets which include both current and non-current assets while intangible assets involve the intellectual properties like patents rights, loyalties etc. (Strange, 2015).

2.1.2 Agency Theory

This theory explains the principal and agency relationship. An agent must work within set contractual agreement. The authority of an agent is delegated authority from the principal, therefore an agent must act within his authority and for the best interest of the principal (Müller & Turner 2005). An act of an agent binds the

principal if the agent acted within his or her authority conferred to him or her by the principal. In relation to the study, the principal is the company contracting service to other companies and the agent is the company offering the service on behalf of the principal company (Abdallah, et al 2012).

This theory suggest that an agent must be competent enough to act on behalf of the principal and must undertake activities on behalf of the principal that are within the law. This theory is relevant to the study in that the outsourced company is the agent while the company giving out the service is the principal. The company outsourced must act with the contractual agreement with the principal otherwise they should not act *ultra vires* (Aubert *et al* 2005).

2.1.3 Theory of Core Competencies

Core competencies refer to special expertise in certain field derived after learning in the organization through specialization (Tippins & Sohi 2003). Competency can either be attained through continuous training or long serving in certain areas of activities through specialization. Application of core competencies is popular and it is used in arriving at outsourcing decision framework (King, 2008).

The concept of core competences was adopted in this study and it is developed on the basis of the resource-based theory. This is used to determine the core or main activities a firm is supposed to undertake and determine which activities contract other companies to undertake in order to concentrate on major activities (Bharadwaj 2000).

For instance, the core activity of banks is providing banking services, therefore theory suggests that the bank should identify its core business or activity which is banking services and contract other companies in cleaning, securities among others (Lovelock 2011).

2.2 Empirical Review

2.2.1 Information Technology (IT) Outsourcing and Financial Performance

Information technology is the most critical part of bank activities that requires special expertise and competency (Tippins & Sohi, 2003). Banks nowadays are finding it very rough especially due to increasing number of fraudsters and hackers who can interrupt overall bank processes and systems. Automated system which requires continuous maintenance and operational cost may require special attention.

Njoroge (2009) establishing how outsourcing management of automated teller machines relate with organizational performance in Co-operative bank of Kenya. The aim of this study was to examine how outsourcing of management of ATMS services relate with organizational performance. The study adopted a descriptive survey design. The population studied was all the Co-op bank branches in Nairobi area. The key findings of this study is that by outsourcing ATMS management to organizations with technical know-how, Co-op bank can enhance their services by focusing on their key or core activities thus enhancing efficiencies and effectiveness.

Biebei (2011) on outsourcing of non-core services and cost reduction strategy in public universities in Kenya. The goal of the study were: to determine what influence the level of outsourcing of non-core services in public universities in Kenya; to assess how these factors have affected outsourcing of non-core services in public universities in Kenya; to assess the role of outsourcing as a cost reduction strategy in the provision of non-core services in public universities in Kenya; and to propose how outsourcing can be enhanced as a cost-reduction strategy in the provision of non-core services in public universities in Kenya. The research outcome indicated that public universities in Kenya acknowledged the benefits of non-core services outsourcing (Tidd 2005).

John *et al*, (2017) on outsourcing strategies and performance of small and medium scale enterprises (SMEs) in Nigeria. The research aimed at determining how outsourcing strategies affected performance of small and medium scale. This research used survey design. The result indicated that business process outsourcing had significant on organizational profitability.

2.2.2 Security Services Outsourcing and Financial Performance

Security is very critical and central of focus to financial institution especially due to cybercrime and physical insecurity like the recent attacks experience in the country by the al-shabaab. This is an area that cannot be understated and banks must engage expert with requisite technical know-how in the area of security. There are companies in Kenya and other countries that have specialized in security among them G4s.

Marete (2011) assessing the benefits of outsourcing decision-making in star-rated hotels in Nairobi-Kenya. The major aim of this study was to determine trends of outsourcing in star-rated hotels and identify factors that influence the selection of operations outsourced. The specific objectives were to identify the operations commonly outsourced by hotels, establish the factors that influence the decision to outsource services, investigate the effects of outsourcing on hotel operations and explore the challenges of outsourcing in hotels. A descriptive survey design was used to assess the factors that influence the selection of operations outsourced. The findings revealed that the concept of outsourcing was not foreign to hotels as most hotel managers had already embraced it.

Mwangangi (2007), on Automated teller machine services outsourcing practices by Kenyan banks. The aim of this study was to highlight the ATMS service outsourcing models used in Kenya and the challenges that Kenyan banks have faced when outsourcing these services. All the banks in Kenya were surveyed. The survey revealed that several models are used in outsourcing of ATMS services in Kenya, that there is no one prevalent model and that most of the banks own their own assets.

Delyno (2011) ATMS cash management and cost reduction in South Africa Retail Bank. The major aim of this research was to determine the benefits that can be achieved by retail bank by making use of ATMS cash management. The findings indicate that use of ATMS for cash management reduces cost in comparison to old way of cash management.

2.2.3 Call Centre Services Outsourcing and Financial Performance

Customer service is a key department in financial institution since customers have multiple enquiries, comments and compliments (Weill & Broadbent 1998). Call Centre requires staff have trained on call services not just usual banking services.

They are well equipped in customer relationship and telephone etiquette. Companies that offer services of call Centre offer services on behalf of their clients within the context of their agreement.

Mungai (2015) on Information Technology Outsourcing and Performance of Banks in Kenya. The major aim of the study was determine the effect of information technology outsourcing and the financial performance. The study made use of case study as research design approach with a target population of 14 banks operating commercially in Kenya. The researcher used both primary and secondary data gathered inform of questionnaire that were structured and non-structured and secondary data collected from published documents of banks past data. The study revealed that there was significant relationship between information Technology outsourcing and financial performance.

Ombasa (2013) on Implementation of outsourcing strategy at Kenya Post Office savings bank. The study adopted a case study design and utilized both primary and secondary data. The same was guided by a pre-planned interview guide. From the study, it was clear that the implementation of outsourcing strategy in Postbank has gone on well despite challenges faced but at the end, it will benefit the organization.

Feyitimi (2016) on accounting outsource drivers and financial performance of small and medium enterprises in Nigeria. The main focus of this research was determine how accounting outsourcing affect financial performance among small and medium enterprises in Nigeria. The target population of the study are the SMEs in three Geopolitical zones of Southern part of Nigeria consisting of 5,907 SMEs. The findings of the study show that there was significant relationship between accounting outsource drivers and the financial performance of SMEs in Nigeria as substantiated with the p-value of less than 0.05 recorded by each construct of the Independent variable (Accounting Outsource Drivers).

2.2.4 Cleaning Services Outsourcing and Financial Performance

Cleaning services are supporting service towards realization of Banks goals. It may not require any technical skills, rather, outsourcing such services grants banks time and an opportunity to explore on their core business activities.

Alex (2010) human resource outsourcing and performance of selected parastatals in Kenya. The research had the following specific objectives, to find out the effect of human resource outsourcing on corporate image and corporate social responsibility, to examine the extent to which human resource outsourcing affected the morale and motivation of the employees, to establish the extent to which human resource outsourcing affected the employees' productivity and quality of service provided, to determine the effect of human resource outsourcing on remuneration of employees and cost reduction. The study concluded that outsourcing improved the social responsibility and corporate image as well as productivity but did not reduce costs.

Mukuna (2014) on business process outsourcing strategy and performance of commercial banks in Kenya. The study was a descriptive cross sectional survey and a census of commercial banks in Kenya was done. The researcher used primary data sources. The findings imply commercial banks in Kenya can improve their business performance through implementation of outsourcing on its non-core activities.

Clarice (2014) on challenges of implementing outsourcing strategy by commercial banks in Kenya. Various variables were used to determine how effective commercial banks are in implementing the outsourcing strategy and establish challenges faced by commercial banks in implementing the outsourcing strategy. It also concluded that the factors that greatly influence the successful implementation of the outsourcing strategy are clear vendor selection process and a clear existing policy on outsourcing.

2.3 Summary and Research Gap

Various researchers have done research on outsources business. Local researchers like Biebei, Catherine (2011), Ombasa (2013) and Mungai (2015) focused on different objectives. Regionally researchers like Feyitimi (2016) focused on SMEs. It is clear that most of the researchers have been using different variables, different target populations. Most of the researchers undertaken used different research methodologies. Therefore there is the need to undertake the above research so as to examine the relationship between business process outsourcing and financial performance of Co-operative Bank of Kenya.

Table 2.1: Summary and research gap

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
Njoroge (2009)	Outsourcing management of automated teller machines and organizational performance at the Cooperative Bank of Kenya.	The key findings of this study is that by outsourcing ATMS management to specialist organizations, Co-operative bank may better focus on their most value-creating activities, thereby maximizing the potential effectiveness of those activities.	The research was done in different variables.	The current research focused on business process outsourcing.
Biebei (2011)	What determines the level of outsourcing of non-core services and its impact on cost reduction in public university in Kenya?	The outcome of the study indicate outsourcing of non-core services had cost reduction impact.	This study used different population.	The current study focused on Co-operative banks of Kenya within Nairobi City.
John <i>et al</i> , (2017)	Outsourcing strategies and performance of small and medium scale enterprises (SMEs) in Nigeria.	The findings of the study indicate that outsourcing strategies had significant effect on performance of small and medium scale enterprises (SMEs) in Nigeria.	This study targeted small and medium scale enterprises (SMEs) in Nigeria.	The current study focused on Co-operative banks in Kenya.
Marete (2011)	Assessment of outsourcing decision-making in star-rated hotels in Nairobi-Kenya.	The findings revealed that the concept of outsourcing was not foreign to hotels as most hotel managers had already embraced it.	This study relied on different population.	The current study focused on banks.

Mwangan gi (2007)	Automated teller machine services outsourcing practices by Kenyan banks.	The survey revealed that several models are used in outsourcing of ATMS services in Kenya, that there is no one prevalent model and that most of the banks own their own assets.	This study focused on automated machines.	The current study focused on outsourced services.
Mungai (2015)	The impact of information technology outsourcing on performance of banks in Kenya.	The results of the study significant relationship between information technology and financial performance among commercial banks.	This study used only one variable.	The current study involved more variables.
Ombasa (2013)	Implementation of outsourcing strategy at Kenya Post Office savings bank.	From the study, it was clear that the implementation of outsourcing strategy in Postbank has gone on well despite challenges faced but at the end, it will benefit the organization.	This study focused on post office only	The current study focused on Co-operative banks.
Feyitimi (2016)	Accounting outsource drivers and financial performance of small and medium enterprises in Nigeria.	The results of the study indicate that there was significant relationship between accounting outsource drivers and the financial performance of SMEs in Nigeria as substantiated with the p-value of less than 0.05 recorded by each construct of the Independent variable (Accounting Outsource Drivers).	This study focused on different population in different locality.	This study focused on banks in Kenya.
Alex (2010)	Impact of human resource outsourcing on performance among parastatals of Kenya.	The study concluded that outsourcing improved the social responsibility and corporate image as well as productivity but did not reduce costs	This study aimed at different population	The current study focused on banks.

Mukuna (2014)	Business process outsourcing strategy and performance of commercial banks in Kenya.	The findings imply commercial banks in Kenya can improve their business performance through implementation of outsourcing on its non-core activities.	This study focused on commercial banks in general	The current study focused on Co-operative banks in Kenya.
Clarice (2014)	Challenges of implementing outsourcing strategy by commercial banks in Kenya.	It also concluded that the factors that greatly influence the successful implementation of the outsourcing strategy are clear vendor selection process and a clear existing policy on outsourcing.	This study used different variables.	The current study focused on effect of business process outsourcing on financial performance.

Source: Researcher 2018

2.4 Conceptual Framework

Conceptual framework is an analytical tool that constitute of independent and dependent variables. It is a type of intermediate theory that attempt to connect all the aspects of an inquiry like problem definition, purpose, literature review, methodology, data collection and analysis. It is therefore used to make conceptual distinctions and organize ideas, giving coherence to empirical inquiry. It helps in capturing the idea and recalling.

The literature review discussed and summarized in table 2.1 above brought up the conceptual framework as outlined in figure 2.1 below indicating how the two variables relate i.e. dependent and independent variable. The independent variables include; security service outsourcing, call centre services outsourcing, information technology outsourcing and cleaning services outsourcing. The dependent variable include only the financial performance of Co-operative bank.

Independent variables

Dependent variable

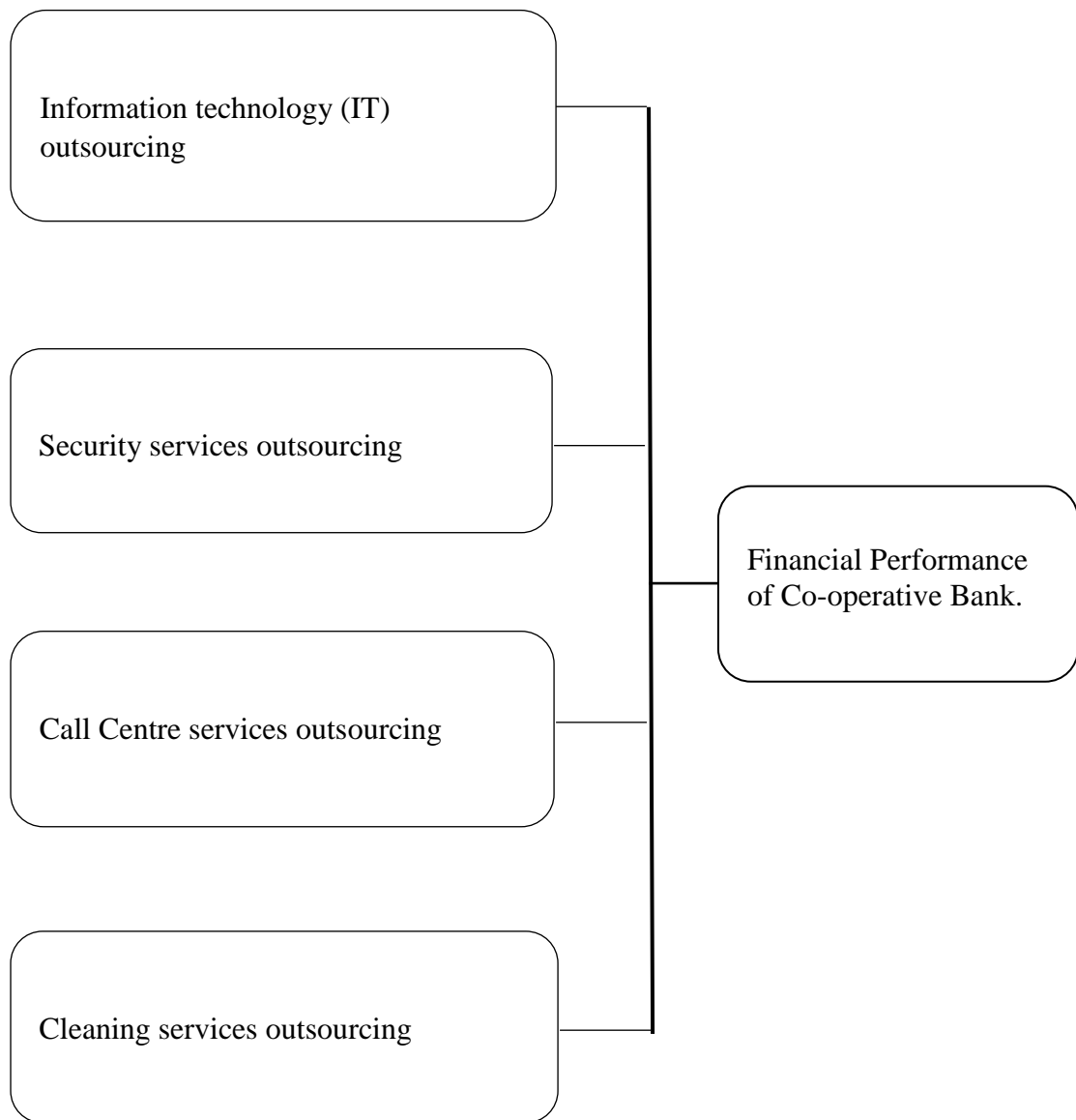


Figure 2.1: Conceptual framework

Source: Researcher 2018

Table 2.2: Operationalization and the variable measurements

Variable	Category	Operationalization	Measurement
Information technology (IT) outsourcing	Independent	The information technology outsourcing truly affect financial performance	<ul style="list-style-type: none"> • Gained access to improved technology. • Minimised cybercrime. • Minimised data or information losses.
Security services outsourcing	Independent	The security services outsourcing influence financial performance	<ul style="list-style-type: none"> • Minimized security threats. • Gained modern security equipment. • Increased customer confidence.
Call Centre services outsourcing	Independent	Call Centre services outsourcing has an impact on financial performance.	<ul style="list-style-type: none"> • Improved customer service. • Reduced customer complains. • Customer giving positive feedback and referral business.
Cleaning services outsourcing	Independent	The cleaning services outsourcing affect financial performance.	<ul style="list-style-type: none"> • Improved cleanliness.
Financial Performance of Co-operative Bank.	Dependent		<ul style="list-style-type: none"> • Increased profitability • Return on investment.

Source: Researcher (2018)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter presented the kind of methodology to be employed in collecting data that was used in the study to gather information together with the targeted population and the sample population to be used as respondents. It also presented data collection procedures used as well as the research instruments used.

3.1 Research Design

The study adopted a description research design. This design was appropriate since it helped to contextually interpret and understand business process outsourcing and financial performance of banks in Kenya. This design is appropriate since it describes certain phenomenon and it covers a wide range of variables. Descriptive design is the research design that involves describing, recording, analyzing and interpreting certain phenomenon or conditions (Kothari, 2011). This research design is appropriate in generalizing a large population and is good in in depth investigation of business process outsourcing practices and it can be able to explain the relationship between the dependent and independent variables.

3.2 Target Population

This research targeted the co-operative bank branches in Nairobi and surroundings areas like Athi River, Mlolongo and Juja. Population is defined as a set of objects, individuals (Mugenda and Mugenda, 2003). In Nairobi County and surroundings there are about 30 Co-operative bank branches. The study focused on the Branch managers, Operations managers and Executive Customer Experience Relationship Officers of the banks.

Table 3.3: Target population

Categories	Population Targeted
Branch managers	30
Operations managers	30
Executive Customer Experience Relationship Officer	30
Total	90

Source: Researcher 2018

3.3 Sample and Sampling Technique

Sampling is a process of picking out objects to represent a large population in a systematic manner (Mugenda & Mugenda 2012). The target population was subdivided into groups called strata. To determine the sample size the research relied on the formulae devised by Yamane (1967) equation.

$$n = \frac{N}{1 + N(e)^2}$$

Where n - Number of samples

N – Size of population

e – Desired level of precision (5%)

Therefore $n = \frac{90}{1+90(0.05)^2}$

The sample (n) = 80

It is preferably better to reduce a population which is small into a smaller size in order to increase accuracy.

$$n = \frac{n_0}{1 + \frac{n_0 - 1}{\dots}}$$

N

Where n_0 = Sample size
 n = Desired sample size
 N = Population size

$$n = \frac{80}{1 + \frac{(80 - 1)}{90}}$$

The sample (n) therefore is 42.6

The representative sample used was 42 people.

Table 3.4 below shows the sample population with the three different categories namely; Branch managers, Operation managers and Executive Customer Experience Relationship Officers which was derived from the target population.

Table 3.4: Sample population

Categories	Sample population
Branch managers	14
Operations managers	14
Executive Customer Experience Relationship Officers	14
Total	42

Source: Researcher 2018

3.4 Instruments

The researcher made use of both primary and secondary data from which primary data was collected by use of questionnaire while secondary data was collected by reliance on banks publications and financial statements. To exploit the research well the research made use of questionnaires which were very simple and easy to understand. The questionnaires comprised of both open and closed ended questions which were

either structured or semi-structured. For convenience purpose, the questionnaires were issued and later picked after they were fully filled up to get more reliable data. To ensure that 100% rate of response was achieved, the researcher made follow up through making telephone calls.

3.5 Pilot Study

Before the research was undertaken, the research had a preliminary or undertook a pilot study in order to identify any problem likely to be encountered in the process. Pilot was necessary since it enhanced validity and reliability of the instruments used in the study.

3.5.1 Validity of the Instruments

This concept emphasis on accuracy of research tool unlike reliability which emphasis on consistency (Kasomo 2006). Validity look at the procedure and process employed in a research and the procedure must be accurate. Any test is regarded to be valid if it can measure exactly what it was made to measure (Kothari 1990). The questionnaire used in this research was tested whether it was valid by use of content validity. This involves logical analysis which entails very careful and keen examination of items that are constituted in the questionnaire.

3.5.2 Reliability of the Instruments

Reliability refers to the consistency of a measure towards meeting the desired results. A measure is termed to be reliable only if the measure used gives similar results consistently. The researcher tested Cronbach's alpha of the questionnaire by use of SPSS. Ribeiro and Scapens, 2006 argued out that a questionnaire is said to be reliable if the alpha value is greater than 0.7.

3.6 Data Collection Procedure

In order to achieve the objective and to enhance accuracy of the information from the target respondents of Co-operative bank branches, initial discussion were held with Branch managers, Operations managers and Executive Customer Experience Relationship Officers working in those co-operative bank branches. The study used both primary data and secondary data. Questionnaires were used to gather primary

data together with interviews. The researcher visited the various bank branches in order to familiarize herself with the officials and make proper arrangements.

3.7 Data Analysis and Presentation

The data was analysed by use of SPSS Version 21 in descriptive statistics and presented in form of tables, charts and percentages. To establish how the independent variables (information technology, security services, call centre services and cleaning services outsourcing) relate with the dependent variable of the study, descriptive statistics was employed to describe and summarize the behavior of the variables in the study.

3.8 Ethical Consideration

The researcher assured the respondents that their participation was voluntary and any one had the freedom to withdraw at point in time without duress or coercion. Through the authorization letter from the university, the researcher assured the respondents that the study was used purely and solely for academic use. The researcher made sure the questionnaires were simple to understand and explained to the respondents the purpose of the study and gave the chance to ask questions.

3.9 Chapter Summary

Chapter three brought about the research methodology used mainly description research design was used, the target population and the sample size used, the data collection procedure as well as instruments, pilot study and data analysis.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.0 Introduction

This chapter presented the outcome or results of the research. This was presented as per the responses from the respondents which was imported from the questionnaire by use of SPSS. The results were presented in form of charts, graphs and tables. The outcome was analyzed and interpreted accordingly.

4.1 Data Presentation

The results of the study was presented or portrayed in form of tables and figures to give the actual picture of the findings. Most of the results was in form of rating in a scale of 1 to 5 which was analyzed and presented by use of SPSS.

4.2 Response Rate

The researcher issued out forty two (42) questionnaire. Out of the 42 questionnaires issued only 37 questionnaires were filled up and returned representing 88.1% response rate. Kothari (2004) recommended at least a response rate of 60%. Therefore the response rate was adequate and satisfying.

4.3 Data Reliability

Reliability refers to the consistency of a measure towards meeting the desired results. A measure is termed to be reliable only if the measure used gives similar results consistently. The researcher tested Cronbach's alpha of the questionnaire by use of SPSS. Ribeiro and Scapens, 2006 argued out that a questionnaire is said to be reliable if the alpha value is greater than 0.7. Alpha value for each questionnaire was determined by use of SPSS and presented in a table as show in the table 4.1. The results indicated that every alpha value was above 0.7 which confirms that data was reliable.

Table 4.5: Reliability test

Variable	Cronbach's alpha
Information technology outsourcing.	.7985
Security services outsourcing	.8279
Call Centre services outsourcing	.7689
Cleaning services outsourcing	.8167

Source: Researcher 2018

4.4 Background Information of the Respondents

The research did a brief report presentation regarding respondents' information background. The information was touching on gender of the respondents, their job position and their working experience.

4.4.1 Gender Respondents

The researcher sought to find out the gender of the respondents. Table 4.6 and figure 4.2 below shows the results.

Table 4.6: Gender Respondents

	Frequencies	Percentages	Valid Percentages	Cumulative Percentages
Valid Male	16	43.20	43.20	43.20
Female	21	56.80	56.80	100.00
Total	37	100.00	100.00	

Source: Researcher 2018

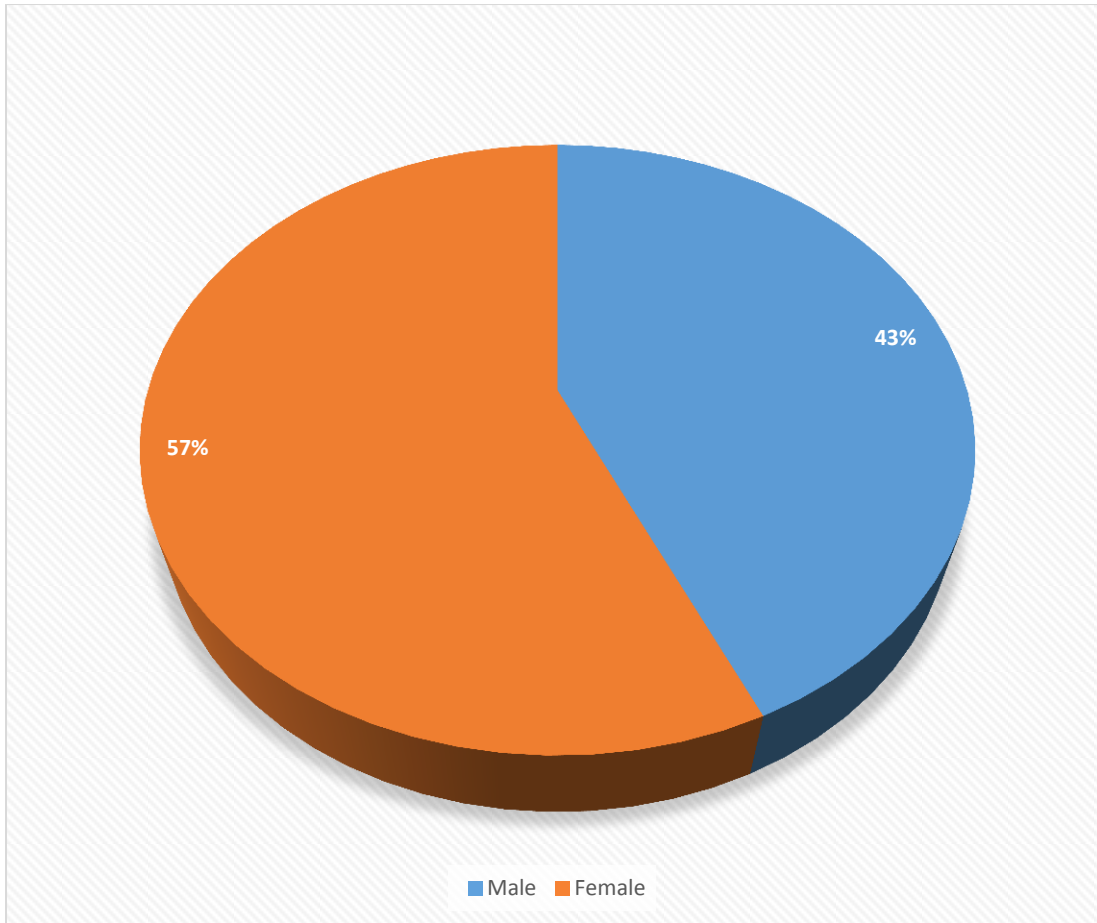


Figure 4.2: Gender respondents

Source: Researcher 2018

The study confirm that there was fair gender representation with 43.2% representing respondents who were male and 56.8% representing female.

4.4.2 Job Position

The researcher sought to find out the job positions of the respondents in the bank. Table 4.7 and figure 4.3 below shows the results.

Table 4.7: Job position

	Frequencies	Percentages	Valid Percentages	Cumulative Percentages
Valid Branch manager	9	24.3	24.3	24.3
Operations manager	14	37.8	37.8	62.2
Executive Customer Experience Relationship Officer	14	37.8	37.8	100.0
Total	37	100.0	100.0	

Source: Researcher 2018

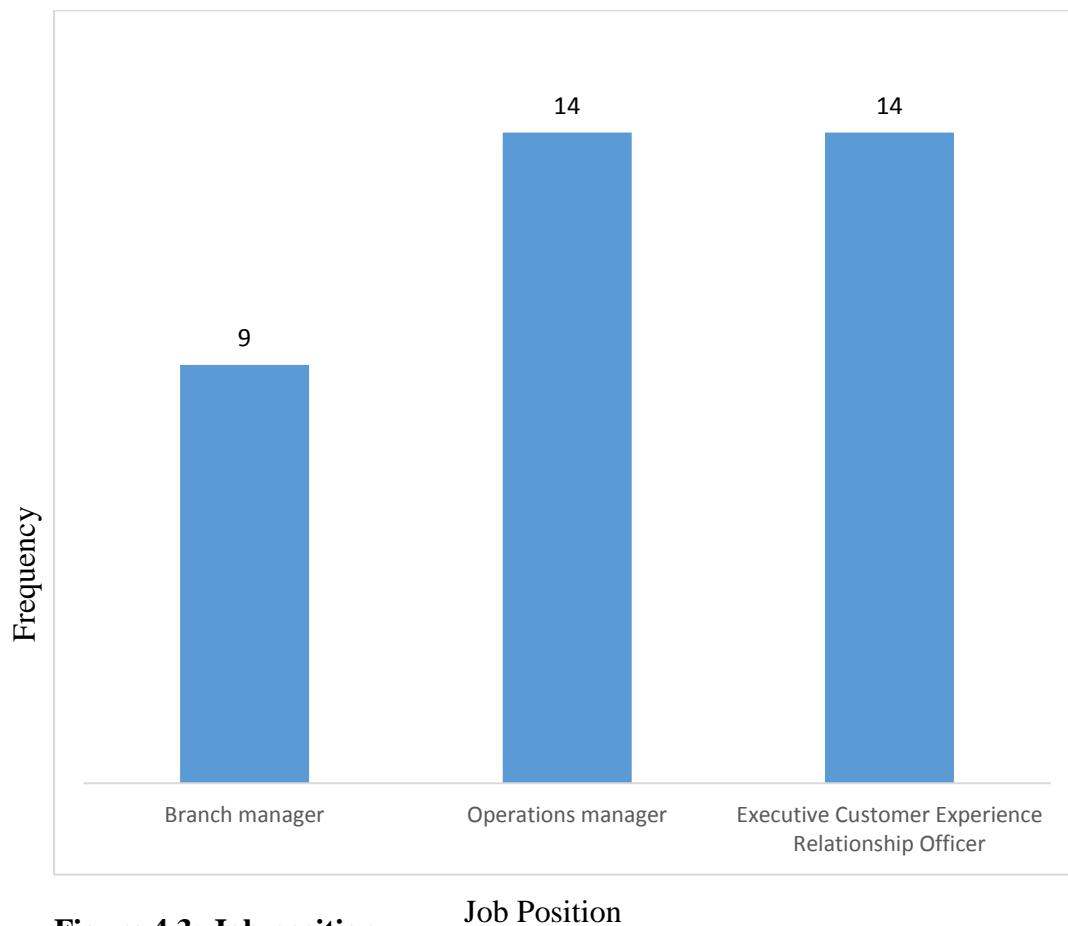


Figure 4.3: Job position

Source: Researcher 2018

Table 4.3 indicate that respondents were Branch managers (24.3%), both Operations managers and Executive Customer Experience Relationship Officers were 14 each representing 37.8%.

4.4.3 Work Experience

The research sought to understand whether the respondents had the requisite working experience in the bank. Table 4.8 below shows the results.

Table 4.8: Work Experience

		Frequencies	Percentages	Valid Percentages	Cumulative Percentages
Valid	0- 5 years	10	22.2	22.2	22.2
	6-10 years	27	60.0	60.0	82.2
	Over 11 years	8	17.8	17.8	100.0
	Total	45	100.0	100.0	

Source: Researcher 2018

The respondents with experience between 6-10 years scored 60% with respondents having experience ranging from 0-5 years of working scoring 40% and finally respondents with working experience ranging 11 years and above scored 17.1%. The results confirmed that majority of the respondents had the required experience.

4.5 Business Process Outsourcing (BPO) and Financial Performance

In order to understand how Business Process Outsourcing affect financial performance the study established whether the banks practiced business process outsourcing. The study used a likert scale of 1 to 5 to rate the extent to which the various business process outsourcing were adopted.

All the respondents agreed that their banks had adopted business process outsourcing with security scoring 100%, call centre services scoring 88%, cleaning services scoring 73% and finally IT scoring 46%.

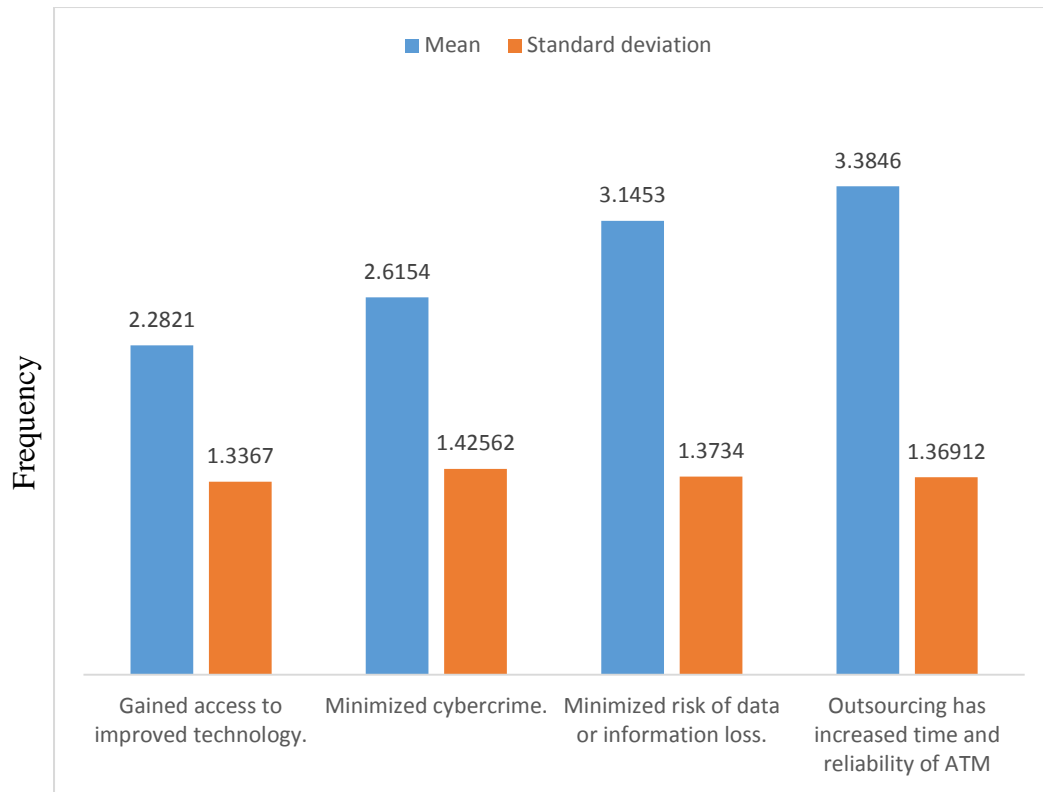
4.5.1 Information Technology

The researcher wanted to establish the extent to which various benefits are derived from outsourcing IT services. Table 4.9 below indicates that Outsourcing has increased time and reliability of ATMSs earned the highest score with a mean of 3.3846 and a standard deviation of 1.36912. Minimized risk of data or information loss was rated second with a mean of 3.1453 and a standard deviation of 1.3734. Minimized cybercrime had mean of 2.6154 and a standard deviation of 1.42562 and finally Gained access to improved technology scored a mean of 2.2821 and a standard deviation of 1.33670. Figure 4.4 below presents the results. The results indicate that information technology truly influence financial performance.

Table 4.9: Information technology

	Mean	Standard deviation
Gained access to improved technology.	2.2821	1.33670
Minimized cybercrime.	2.6154	1.42562
Minimized risk of data or information loss.	3.1453	1.3734
Outsourcing has increased time and reliability of ATMS	3.3846	1.36912

Source: Researcher 2018



Mean and standard deviation

Figure 4.4: Information technology

Source: Researcher 2018

4.5.2 Security services outsourcing

The researcher wanted to establish the extent to which security services were outsourced and the benefit derived. The bank Gained customer confidence on their security was highly rated to a great extent of mean of 3.3077 and a standard deviation of 1.39838. The bank Increased focus on the main or core bank services to great extent as depicted in table 4.10 below with a mean of 3.3033 and standard deviation of 1.32753. The bank Minimized risk of security threats attained a mean of 2.5385 and a standard deviation of 1.39258 and finally the banks Gained modern security measures scored a mean of 2.9744 and a standard deviation of 1.26672. A mean of 3.3077 confirm that majority of respondents were in agreement with the statement. Figure 4.5 below presents the results. The results confirm that security outsourcing truly influence financial performance.

Table 4.10: Security services outsourcing

	Mean	Standard deviation
Gained customer confidence on their security.	3.3077	1.39838
Increased focus on the main or core bank services.	3.3033	1.32753
Minimized risk of security threats.	2.5385	1.39258
Gained modern security measures.	2.9744	1.26672

Source: Researcher 2018

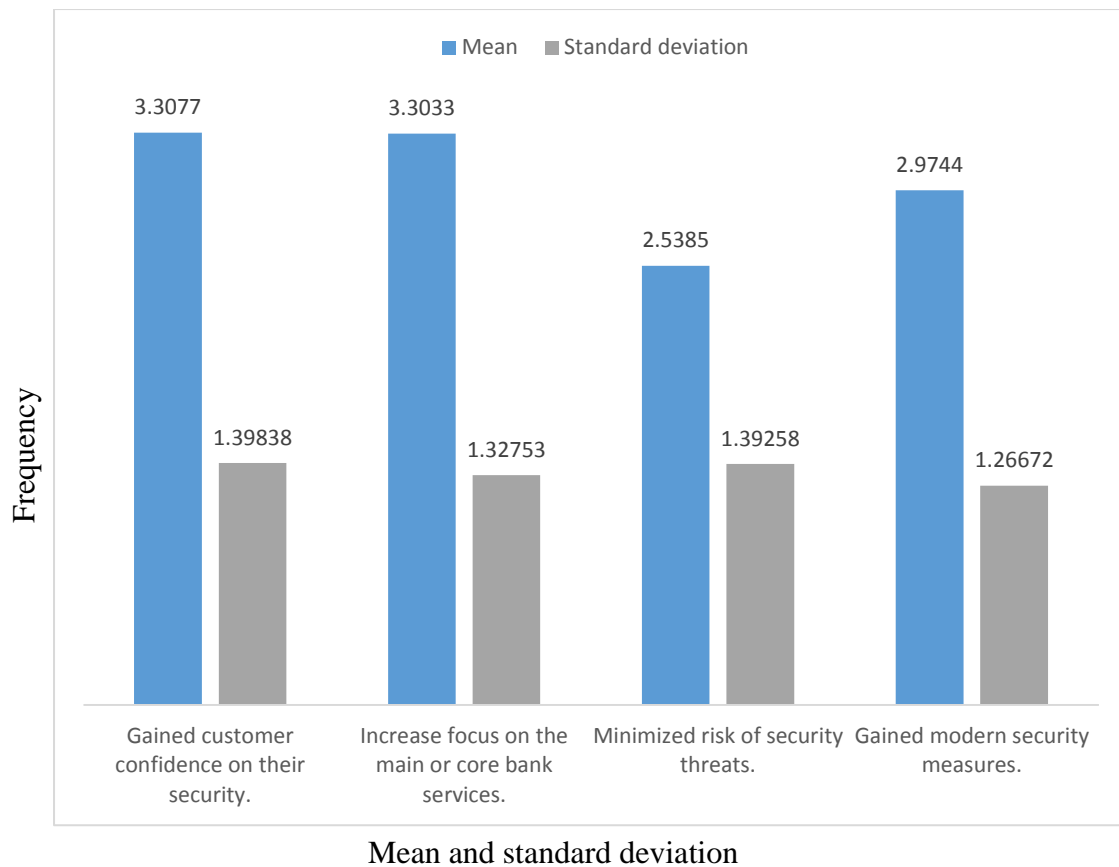


Figure 4.5: Security services outsourcing

Source: Researcher 2018

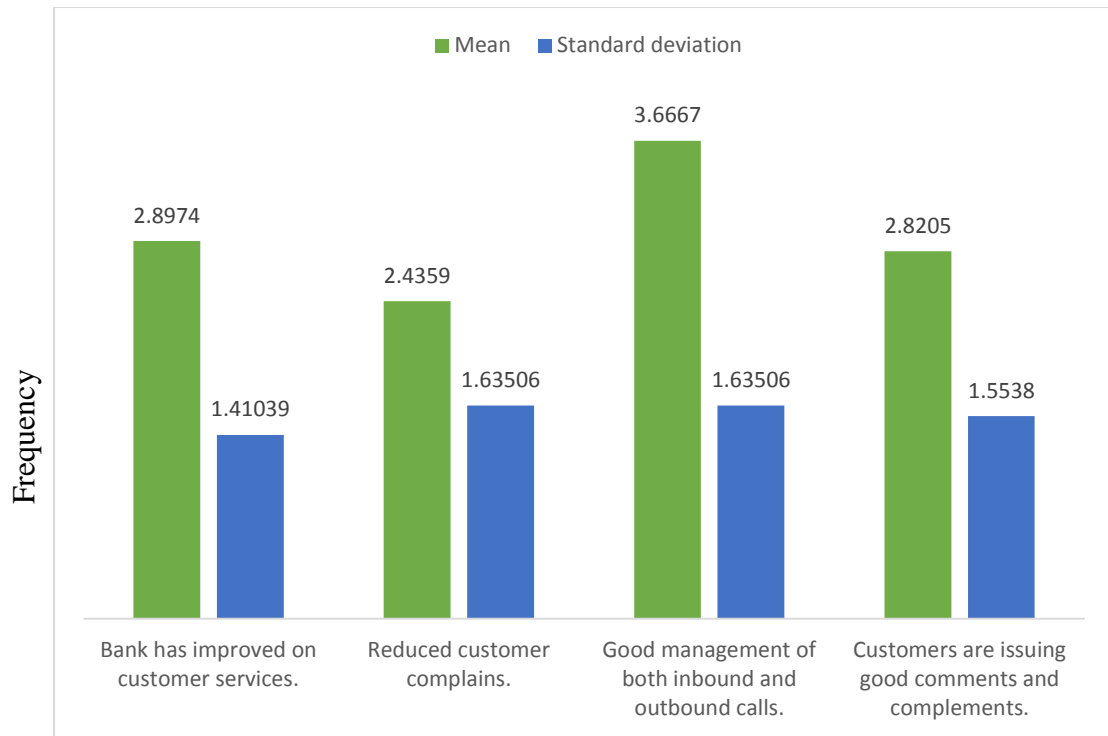
4.5.3 Call Centre Services Outsourcing

The study aimed at establishing the extent to which call centre outsourcing was adopted and the benefits derived. Table 4.11 below indicate that Good management of both inbound and outbound calls scored a mean of 3.6667 and a standard deviation of 1.54466. Bank has improved on customer services scored a mean of 2.8974 and a standard deviation of 1.41039. Customers are issuing good comments and compliments scored a mean of 2.8205 and a standard deviation of 1.55380 and finally reduced customer complains scored a mean of 2.4359 and a standard deviation of 1.63506. A mean of 3.6667 confirmed that most respondents were in an agreement that good management of both inbound and outbound calls improved financial performance. Figure 4.6 presents the results. The results confirm that call centre services outsourcing influence financial performance.

Table 4.11: Call Centre Services Outsourcing

	Mean	Standard deviation
Bank has improved on customer services.	2.8974	1.41039
Reduced customer complains.	2.4359	1.63506
Good management of both inbound and outbound calls.	3.6667	1.54466
Customers are issuing good comments and compliments.	2.8205	1.55380

Source: Researcher 2018



Mean and standard deviation

Figure 4.6: Call Centre services outsourcing

Source: Researcher, 2018

4.5.4 Cleaning Services Outsourcing

The researcher wanted to establish the various benefits derived from cleaning services outsourcing and the findings in table 4.12 below indicate that outsourcing cleaning services lower operational costs by scoring a mean of 4.4872 and a standard deviation of 0.55592. Outsourcing cleaning services improved sanitations and cleanliness with a mean and standard deviation of 3.5385 and 1.14354 respectively. Cleaning services outsourcing led to gained competitive advantage scoring a mean of 3.5128 and standard deviation of 1.23271. Figure 4.7 presents the results. The results indicate that cleaning services outsourcing truly affect financial performance.

Table 4.12 : Cleaning services outsourcing:

	Mean	Standard deviation
Lower operational costs	4.4872	0.55592
Improved sanitations and cleanliness.	3.5385	1.14354
Gained competitive advantage.	3.5128	1.23271

Source: Researcher 2018

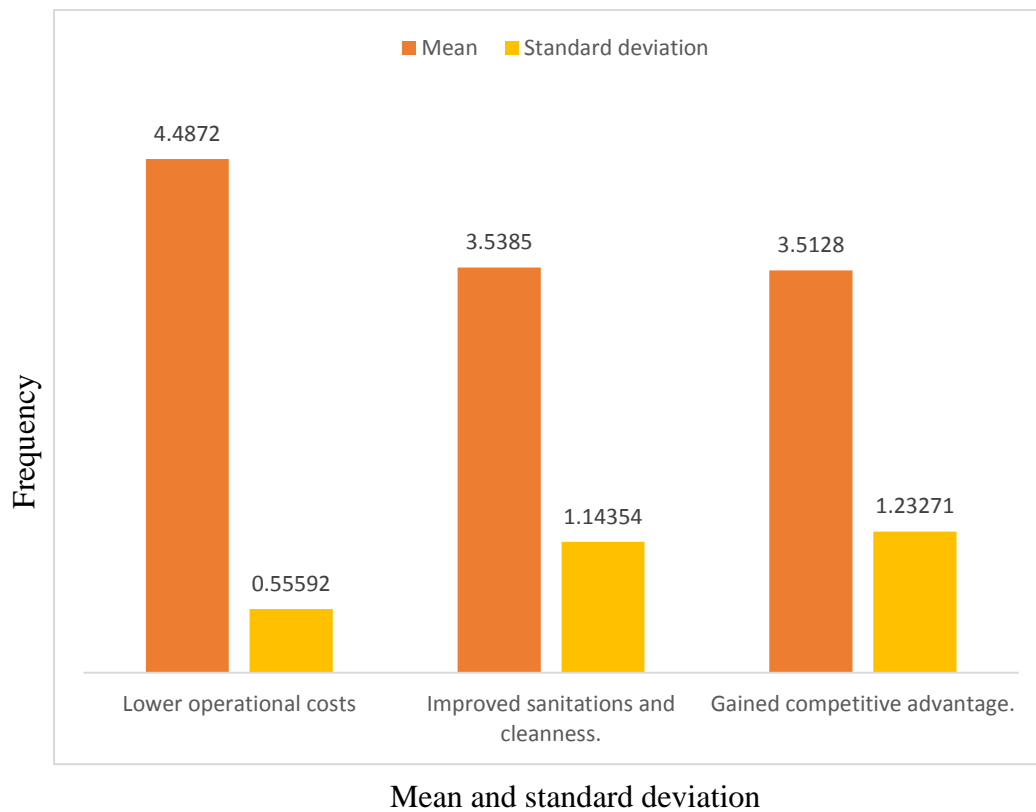


Figure 4.7: Cleaning services outsourcing

Source: Researcher 2018

4.6 Chapter Summary

The chapter presented data analysis and presentation together with interpretation of the results. The data has been presented in graphs and charts. The results confirm that business process outsourcing truly affect financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This is the final chapter that presents the summary of the findings, summary of the interpretations and recommendations.

5.1 Summary of the Findings

The aim of this study was to examine the relationship between business process outsourcing (BPO) on the financial performance of Co-operative Bank of Kenya. The findings confirm that ICT outsourcing in banks derives benefits with increased time and reliability of ATMSs scoring a mean of 3.3846 meaning that majority of the respondents rated it to a great extent. Outsourcing ICT minimized risk of data or information loss as it scored a mean of 3.1453 confirming that it was rated to a great extent by majority of respondents.

Security services outsourcing led to gained customer confidence as their security was highly rated to a great extent of mean of 3.3077 confirming that majority of respondents agreed. It also led to increased focus on the main or core bank services to great extent with a mean of 3.3033. This confirmed that banks could focus on their core business hence improving financial performance.

It was confirmed that banks are outsourcing call centre services from which good management of both inbound and outbound calls scored a mean of 3.6667. This confirms that majority of respondents were in agreement of the benefits derived from good management of both inbound and outbound calls. It also led to improved customer services that scored a mean of 2.8974.

Most organization overlook cleaning as a critical area of concern. The study wanted to establish the various benefits derived by respective banks by outsourcing cleaning services.

The researcher wanted to establish the various benefits derived from cleaning services outsourcing and the findings indicate that outsourcing cleaning services led to lower operational costs by scoring a mean of 4.4872. Outsourcing cleaning services improved sanitations and cleanliness with a mean of 3.5385. It also led to gained competitive advantage scoring a mean of 3.5128.

5.2 Conclusions

The study therefore conclude that business process outsourcing influenced financial performance through outsourcing information technology, security services, call centre services and cleaning services. Close to all banks had outsourced security services and they derived benefits among them being gained customer confidence on their security hence increasing customer base. Increased focus on the core bank services by the staff hence enhanced concentration and creation of an avenue for being more creative and innovative at work which in turn translates to high productivity and increase morale with the end product being improved financial performance of the banks.

Outsourcing IT led to improved access to improved technology due to gained access in the emergent technology, better data access and security due to minimized risk of data or information loss in addition to reduced cybercrime attacks because the company offering the service concentrates fully on IT hence is able to monitor and detect cybercrimes before they succeed hence minimizing on operational costs. This in turn improved financial performance.

Additionally, Customer feedback, complains and compliments could be dealt with more quickly and in a more simplified way with outsourced call centre services. Good management of both inbound and outbound calls meant that customers' issues, concerns or queries could be dealt with without them having to walk physically to the banking halls. It was confirmed that customer confidence on the banks improved due to outsourced call centres.

Banks focused on their core business hence improving on financial performance with outsourced cleaning services. The working environment was conducive enough for working for both customers and staff. Improved sanitation and cleanliness made both parties comfortable whilst in the banking halls. This translates to healthy staff as lack

of clean facilities and amenities would be a health hazard to both staff and customers thereby reducing sick offs by the staff which would be as a result of poor sanitation and dirty working environment.

5.3 Recommendations

In line with the findings as indicated by the researcher in the previous chapter, the research make few recommendation from which if adopted as recommended would amount to efficiency and effectiveness. As indicated by the findings, outsourcing may not amount to benefits instead it can lead to cost implication hence proper analysis should be undertaken. The pros and cons of outsourcing should be evaluated properly. Although outsourcing has its benefits, it also bears risks for banking institutions.

Banks should opt to outsource services that call for special technical know-how since it requires heavy capital investment in training the staff on the same. It should also outsource services that appear to be collateral to the business so as to give room for the bank to focus on their core business which is banking services in order to improve financial performance.

Security is the most critical part of every other organization and it cannot be overlooked since without security there is no business. Security is wide ranging from physical security to data security. Banks should concern the need to contract competent security firms to provide security for their banks.

Finally banks should always ensure that they are clean and neat. This can be enhanced through outsourcing cleaning service hence reducing operation cost of supervision, buying detergents among others. This will give room for banks to concentrate or pay more attention to their core business activities.

5.4 Suggestions for Further Research

This study investigated the effect of business process outsourcing on financial performance among banks in Kenya. Further study needs to be carried on micro-finance institutions to establish whether the same results will be derived.

The study used only four variables among them information technology outsourcing, security service outsourcing, call centre service outsourcing and cleaning service

outsourcing. There could be other relevant variables that could affect financial performance of banks which ought to be investigated.

The researcher recommends the same research to be undertaken in other countries and in other regions in order to understand their comparison. This study was undertaken in Nairobi only in Kenya, similar studies could be carried out in other regions like Meru, Kisumu or Makueni County or any other county to see whether the same results will be attained.

The researcher suggests the same study to be undertaken on different populations like parastatals to check whether the same results will be attained and evaluate whether the benefits will be imitative.

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APPENDICES

Appendix I: Introductory letter

Miriam Njung'e,
P.O. Box 2104-00200,
Nairobi.

Dear respondent,

Re: Data Collection

I am a degree student from Management University of Africa (MUA) in the school of Management and Leadership. For my research project, I am collecting data relating to business process outsourcing and financial performance of Cooperative bank of Kenya; a case of Cooperative banks in Nairobi County, in order to fulfill the degree requirement.

You have been selected to form part of this study. This is a kind request for you to support me in gathering necessary data regarding my study by filling out the accompanying questionnaires.

My supervisor and I would like to assure you that all the information you share will be treated with utmost confidence and will solely be used for this study.

I thank you in advance for your contribution, time and cooperation.

Yours faithfully,

Njung'e Miriam

BML student

Management University of Africa.

Appendix II: Questionnaire

Part one: Background information

1. Kindly indicate by use of either a tick or x clarify you gender.

Male Female

2. In the list indicated below kindly chose by a tick your job position in the Bank.

- i. Branch manager
- ii. Operations manager
- iii. Executive Customer Experience Relationship Officer

3. Kindly indicate your working experience in terms of years you have worked in the Bank.

- i. Between 0 yrs. to 5 yrs.
- ii. Between 6 yrs. to 10 yrs.
- iii. Above 11 years.

Part two: Business Process Outsourcing (BPO)

By use of tick or X kindly indicate your opinion on the statements below.

1. Has your bank outsourced any of services/ functions?

Yes () No ()

2. If yes indicate by ticking any of the following services/ functions

- i. Cleaning services
- ii. Information technology
- iii. Security services
- iv. Call Centre services
- v. Others..... (Specify).

Information Technology Outsourcing

By use of scale of 1 to 5 with 1 representing high extent and 5 representing low extent, tick where appropriate the extent to which your bank has attained the following results due to outsourcing in its information technology.

No.	Statement	1	2	3	4	5
1	Gained access to improved technology.					
2	Minimized cybercrime.					
3	Minimized risk of data or information loss.					
4	Outsourcing has increased time and reliability of ATMSs					

Security services outsourcing

By use of scale of 1 to 5 with 1 representing low extent and 5 representing high extent, tick where appropriate the extent to which your bank has attained the following results due to outsourcing in its Security services outsourcing.

No.	Statement	1	2	3	4	5
1	Gained customer confidence on their security.					
2	Increased focus on the main or core bank services.					
3	Minimized risk of security threats.					
4	Gained modern security measures.					

Call centre services outsourcing

By use of scale of 1 to 5 with 1 representing low extent and 5 representing high extent, tick where appropriate the extent to which your bank has attained the following results due to outsourcing in its Call Centre services outsourcing.

No.	Statement	1	2	3	4	5
1	Bank has improved on customer services.					
2	Reduced customer complains					
3	Good management of both inbound and outbound calls.					
4	Customers are issuing good comments and compliments.					

Cleaning services outsourcing

By use of scale of 1 to 5 with 1 representing low extent and 5 representing high extent, tick where appropriate the extent to which your bank has attained the following results due to outsourcing in its cleaning services outsourcing.

No.	Statement	1	2	3	4	5
1	Lower operational costs					
2	Improved sanitations and cleanliness.					
3	Gained competitive advantage.					

Financial Performance

In the statements below kindly express your opinion by rating them to what extent you either agree or disagree.

Statements	S.A	A	N.S	D.A	S.DA
Information technology outsourcing enhances financial performance.					
Outsourcing security services improves financial performance.					

Call centre services enhances financial performance.					
Outsourcing cleaning services improves financial performance.					

I appreciate you for your time and be blessed!

Appendix III: List of Co-operative Bank Branches

1. Cooperative Bank of Kenya - Aga Khan Walk Branch
2. Cooperative Bank of Kenya - Athi River Branch
3. Cooperative Bank of Kenya - Buru Buru Branch
4. Cooperative Bank of Kenya - Co-operative House Branch
5. Cooperative Bank of Kenya - City Hall Branch
6. Cooperative Bank of Kenya - Dandora Branch
7. Cooperative Bank of Kenya - Donholm Branch
8. Cooperative Bank of Kenya - Eastleigh Branch
9. Cooperative Bank of Kenya - Embakasi Branch
10. Cooperative Bank of Kenya - Enterprise Road Branch
11. Cooperative Bank of Kenya - Gikomba Branch
12. Cooperative Bank of Kenya - Githurai Branch
13. Cooperative Bank of Kenya - Industrial Area Branch
14. Cooperative Bank of Kenya - Kangemi Branch
15. Cooperative Bank of Kenya - Kariobangi Branch
16. Cooperative Bank of Kenya - Kawangware Branch
17. Cooperative Bank of Kenya - Kayole Branch
18. Cooperative Bank of Kenya - Kibera Branch
19. Cooperative Bank of Kenya - Kimathi Street Branch
20. Cooperative Bank of Kenya - Kitengela Branch
21. Cooperative Bank of Kenya - Moi Avenue Branch
22. Cooperative Bank of Kenya - Nacico Plaza Branch
23. Cooperative Bank of Kenya – Tom Mboya street
24. Cooperative Bank of Kenya - Umoja Branch
25. Cooperative Bank of Kenya –Nakumatt Junction Branch
26. Cooperative Bank of Kenya –Rongai Branch
27. Cooperative Bank of Kenya –Gigiri Branch
28. Cooperative Bank of Kenya - Ngong Branch
29. Cooperative Bank of Kenya - Ngara Branch
30. Cooperative Bank of Kenya - Westlands Branch