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Factors Influencing Strategic Outsourcing Practice in Airline Industry: A Case Study of Kenya Airways

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Abstract:
Outsourcing or sending off a job outside the company is viewed by many as recent phenomena which started after the internet boom in mid 1990s, but the fact that outsourcings history is as old as America. The general objective of the study sought to examine the factors influencing the outsourcing practice in Kenya Airways, it will be guided by the following objective: To determine the extent to which strategic plan influence strategic outsourcing in Kenya Airways, to establish the extent to which quality improvement influences outsourcing in Kenya Airways and finally to determine the effect of production cost on strategic outsourcing decisions in Kenya Airways. The study adopted a descriptive survey design. The population targeted comprised of one hundred top level management of Kenya Airways in Mombasa and Nairobi from key departments, a sample size of eighty respondents were used in the study and a sample from each key department were selected using purposive sampling. Data was collected using Questionnaires which was administered to the respondent's and analyzed using Multiple regression model so as to determine whether the sets of independent variables together predict the dependent variable. The study found out that the outsourcing decision based on the company strategic plans as a High priority and that the company policy is an indicator of how the strategic plans are performing. The study finding also revealed that it is likely that the quality maintenance and improvement cut across all the departments, and that the quality improvement and maintenance is a major competitive edge in service industry. The study found out that that the that operation cost influences outsourcing decisions, the operation cost decision made by top management in collaboration with all stakeholders and that the operation cost is extremely likely to influences the Cost of service is an indicator of how operation cost planning in efficient. The study recommends that organizations should outsource their noncore business to outside providers that can bring a cut in cost of operation to a great extent. This study further recommends that the quality of service should be enhanced through considering many choices for service outsourcing as well as their providers This study finally recommends that for organizations to enhance business agility operation, they should measure outsourcing effectiveness as regards to performance, they should put in place a standard format of measuring performance such as performance evaluation, performance ratios and performance appraisal such that the success from outsourcing management point of view is the same as what clients deem to be success.

1. Introduction

1.1. Background of the Study

Handfield (2006) noted that companies have always hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. However, he asserts that the difference between simply supplementing resources by "subcontracting" and actual outsourcing is that the latter involves substantial restructuring of particular business activities including, often, the transfer of staff from a host company to a specialist, usually smaller, company with the required core competencies. Strategic sourcing is concerned with top level, longer term decisions relating to high profits, high supply risk strategic items and low profit, high supply risk bottleneck products and services. It's also concerned with formulation of long term purchasing policies, supplier base, partnership out sourcing, reciprocal and intra-company trading, globalization and countertrade, the purchase of capital equipment and ethical issues(Kenneth &Brian, 2006)

There is not only one specific definition in literature for outsourcing. Definitions are different depending on the source. According to a broadest interpretation of outsourcing, it can be considered just a reliance on external resources (Mol, 2007). If this definition is accepted, the outsourcing refers to those activities that are undertaken by outside suppliers, no matter how those activities never been made in-house (Juha& Suvi,2009). In this study the concept of outsourcing refers to transferring activities previously conducted in-house to an outside supplier. Lonsdale and Cox (1998) provide the definition for outsourcing, which is accepted in this study. They define outsourcing as the process of transferring an existing business activity, including the relevant assets, to a third party. Consequently, according to this definition, outsourcing always incorporates a shift in company's boundaries.

1.2. History of Outsourcing

Outsourcing or sending off a job outside the company is viewed by many as recent phenomena which started after the internet boom in mid 1990s, but the fact that outsourcings history is as old as America may surprise us. During the early years of America, the manufacturing of clippers ships sails was sent to Scotland, and the raw material came from India. India was also an outsourcing destination for British textile industry during the 1800s, but eventually the British become more efficient and outsourced job came back to Britain (Kelly, 2005). In more recent times, during 1970s computer companies used to outsource their payroll processing. Late 1980s saw emergence of offshore outsourcing when companies started sending off their manufacturing jobs overseas.

In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale (Ishizaka *et al* 2012). By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures (Leaua and Anitei,2012). To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced. Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). This trend got boost from the increasing technical advancement and the 1986-94 Uruguay Round of talks which lead to the creation of WTO (Juha&Suvi,2009). Kodak and American standard were among the first companies to outsource (Kelly, 2005).

For most of the 20th century, a successful firm was defined by its ability to own, manage and directly control all of its assets and processes (Loral, 2011). In the 1950s and 1960s, in order to protect profits, companies began to look for ways to broaden their base and take advantage of economies of scale. This resulted in the emergence of diversification as a popular strategy. As competition became more global in the 1970's and 1980's, organizations found that diversification had actually bloated their management structures (Loral, 2011). Consequently, they had lost their flexibility. To counter this undesirable development, many large companies began to consider outsourcing. Shifting focus to their core processes, they handed off non-critical (non-core) procedures, to be managed by third parties.

The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results. Consequently, organizations are likely to select outsourcing more on the basis of who can deliver more effective results for a specific function than on whether the function is core or commodity. Outsourcing is not a new concept for the airline industry; it has been implemented in varying degrees by most carriers. Historically, airlines have outsourced a variety of functions ranging from check in, to cargo handling, to information technology and even to flying itself. For instance, according to Airport Focus Newspaper (2014),British Airways subsidiary in India employs 1,200 workers to handle back-office operations for its parent company, as well as for nine airlines outside of its organization.

The same Journal further asserts that Qatar Airways outsources one of its non-core activities, revenue accounting, to further focus on its core function. Further, Susan (2014) stated that United Continental Holdings Inc. was to outsource jobs at 12 U.S. airports in cities including Buffalo, N.Y., Charlotte, N.C., and Detroit on Oct. 1 2014 to vendors who will perform the duties at lower cost. In Asia, India holds the title for being the leader in outsourcing. Functions commonly outsourced include IT maintenance, application development, mobile end-user device support, and customer service. British Airways has used outsourcing to maintain profits in tough especially in early 2000s where the UK flag-carrier's business was at risk given global events that included the September 11 terrorist attacks and the subsequent war in Iraq. The airline needed to cut expenses and looked to its service arm in India, where costs for IT and BPO work can be less than half of what prevails in Western markets(Dipti,2013).

Pumela (2009) observed that the rise of Africa is hidden in plain sight and it can be seen along the teeming aisles of retail stores and as its evidenced by the expanding airport and flight paths of Kenya Airways, Ethiopian Airlines, South African Airways and many others. It can also be seen in the extraordinarily rapid growth in banking, cell phones, automobiles, and consumer goods. With the advent of Business Process Outsourcing and off shoring, she argues that it's a breath of fresh air, because it provides an opportunity for lowering production and operational cost. According to Airport Focus (22rd April 2014), South Africa's leading airline, South African Airways (SAA), will outsource its domestic network services and its desktop and associated server support services to SITA in a five-year deal. HindaNcala, Chief Information Officer, South African Airways, said: "In order to enhance passenger service and ensure we remain competitive in the market, we need to transform the way IT Operations delivers services to the business."

1.3. Profile of Kenya Airways

Kenya Airways traces its history back to 1946 with the formation of the East African Airways Corporation (EAA). Initially, EAA had a good reputation for service and reliability. With the formation of the East African Community, EAA passed into the joint ownership of the governments of Kenya, Tanzania and Uganda. Shortly after the collapse of the East African Community in 1976, EAA was placed in liquidation, this led to Incorporation of Kenya Airways in January 1977 as a company wholly owned by the Kenyan government.

Kenya Airways Journal (2011) reveals that Kenya Airways is the leading operator on domestic routes with sixty-seven flights a week to four domestic destinations: Mombasa, Malindi, Kisumu, and Nairobi. In addition, it operates scheduled passenger service and cargo services to twenty-four international destinations with forty-five flights a week and serves seven destinations in Europe; eleven in sub-Saharan Africa; and six in North Africa, Asia, and the Middle East. Kenya Airways, as the national airline of Kenya, has rights under existing bi-lateral agreements to operate flights to a total of fifty-eight countries.

It has its own international sales offices in twenty-three countries, of which the London office is the largest. Kenya Airways retains over twenty-five General Sales Agents in twenty countries where it does not have its own sales offices. In Kenya, Kenya Airways has appointed over one hundred travel agents and around thirty cargo agents. Kenya Airways is connected to a variety of sophisticated airline communication and information systems (Kenya Airways Journal, 2011).Kenya Airways is capable of carrying out all scheduled maintenance checks on all its current aircraft types. The airline maintains extensive workshop facilities for the overhaul and repair of mechanical, electrical and avionics aircraft components, including a module facility for handling large fan engines. Some component repairs and maintenance are contracted out to qualified vendors, mostly airlines, in various European countries. Kenya Airways' maintenance facilities consist of a hangar at Jomo Kenyatta International Airport capable of taking one wide-body or two narrow-bodied aircraft at the same time, together with supporting facilities and equipment.

1.4. Statement of Problem.

The global airline industry operates in service industry complexities within a highly turbulent environment. Keynes,(2009) stated that unlike other industries, airlines are subject to rapid change from customer expectations, competitor moves, supplier developments, government regulations and employee dynamics. Bissessur and Alamdari (2008) state that with increased liberalization in major airline transport markets, the intensity of competition has increased amongst air carriers. To increase their flexibility and creativity, many airline companies are developing a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced (Marcella *et al* 2013). How to choose an appropriate outsourcing services turns to be a key issue that the Airline enterprises are facing (Goll*et al*,2007), Marcella *et al* (2013) analyzed the decision-making influence factors of choosing outsourcing services based on AHP analysis model that provided the theory basis and the effective reference for this kind of decision making.

Kenya Airways faces a challenge of getting back into the profit zone, the Airline made an operating loss for the second time since its listing in the Nairobi Securities Exchange, posting a loss of Ksh2.7 billion ($31 million) in 2014,which though a substantial drop from the Ksh9 billion ($103 million) it posted in 2013, shows the mountain that the company has to climb. The company had made a net loss of Ksh3.3 billion ($37 million) compared with Ksh7.8 billion($88 million) in 2013(The East African dated 28th June 2015).The airline faces assaults on multiple fronts, including from Middle Eastern carriers, the negative effects of travel advisories facing the country and multiple security problems across Africa, its main market, Due to economic difficulties in the aviation industry, high operating costs and unsustainable wage bill, the national carrier embarked on a restructuring process that entailed staff rationalization and more relevant, outsourcing of some of the non-core services. The former Kenya Airways CEO Dr. Titus Naikuni noted that outsourcing has been facilitated by the need to cut cost especially on fuel prices which has continued to impact negatively on the Airline and by outsourcing, the national carrier would be targeting to save about 1 billion shillings a year. The study will therefore seek to examine the factors influencing strategic outsourcing practices.

1.5. Objectives

The study was guided by the following objectives:

<u>1.5.1. General Objectives</u>

To examine the factors influencing outsourcing practices in Kenya Airways.

<u>1.5.2. Specific Objectives</u>

i. To determine the extent to which strategic planning influence strategic outsourcing in Kenya Airways.
ii. To establish the extent to which quality improvement influences outsourcing in Kenya Airways.
iii. To determine the effect of operation cost on strategic outsourcing in Kenya Airways.

1.6. Research Questions

i. To what extent does strategic plan influence strategic Outsourcing in Kenya Airways?
ii. How does quality improvement influence strategic outsourcing in Kenya Airways?
iii. How does production cost affect strategic outsourcing in Kenya Airways?

1.7. Justification

The findings were used by top management in strategic allocation of resources that will foster the company's profitability by bringing down the operation cost as well as improving on quality.

Strategic outsourcing involves interaction between the strategic partners thus the findings of the study will have far effect in strengthening the partner's relationship through mutual benefits brought about by the strategic outsourcing.

The management team used the findings as the base upon which to review company performance. Necessary improvements identified could be undertaken to enhance performance at the work place. The findings can also be used by human resource management in other companies to help in boosting employee performance at the various workplaces.

1.8. The Scope of the Study

The study investigated the impact of strategic outsourcing in Kenya Airways. It will involve top management of a hundred staff from Finance, Ground Operation, Commercial department, IT, Human resource departments, Technical department, Safety and Security department.

1.9. Limitation of the Study

The Study faced the following challenges:

Some respondent was reluctant to give information without incentives in exchange for the information sought thus the information given may reflect the size or nature of incentive accorded. Moreover, some employees did not fully understand the factors influencing strategic outsourcing.

Kenya Airways due to lack of exposure to the field of study or they being recently employed and therefore may fail to give the required information on factors influencing strategic outsourcing. However, the respondents were made to understand the information being sought from them by thorough explanation and by using simple understandable English.

Top management restricted their information to general information for fear of losing confidential information to competitors. There exist few airline companies incorporated in Kenya though there are many operating offices for international airlines. The challenge with international airlines is getting fine information sought which may be available at its Headquarters. However, the challenge was minimized by having a confidential clause that seeks to protect information given as well as indicating that the research is only for academic purpose.

2. Literature Review

2.1. Introduction

This chapter presents a summary of literature on various key areas surrounding strategic outsourcing in Kenya Airways. It first started by examining various aspects such the profile of Kenya Airways, reasons for outsourcing and risk of outsourcing. The chapter begins with theoretical framework and will discuss the theories of strategic outsourcing and will end with an examination of the literature gap that exists within the study area.

2.2. Theoretical Framework

<u>2.2.1. Transaction Cost</u>

Transaction cost (TC) has been the most utilized theory of outsourcing. TC is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the Managing relationship phase, whilst the concept of switching costs made the theory applicable in the reconsideration phase. Another useful issue for outsourcing provided by TC is explanation of contractual complexity. Though TC has not been utilized explicitly for studying the Vendor selection phase, its sub-theory (if we may say so), the theory of incomplete contracting, has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities.

Even though it has been exercised extensively in outsourcing applications, the TC has several indulgencies. Lacity and Willcocks (1995) found that the original mapping to the TC framework only explained few IT sourcing decisions and generated much more anomalies in their sample. Another critique could be that TC relies on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. Finally, TC is static, which doesn't correspond to dynamism of current business environment.

<u>2.2.2. Resource-based View</u>

The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney and Hesterly, 1996). If resources and capabilities of a firm are mixed and deployed in a proper way, they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore, the most prominent use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. The theory has been also used to explain some of the key issues of the Managing relationship and Reconsideration phases.

<u>2.2.3. Agency Theory</u>

Agency theory is concerned with resolving problems that can exist, between principals and agents of the principals. According to Daniel (2009). The principal–agent problem occurs when one person or entity (agent) is able to make decisions on behalf of, or that impact, another person or entity (Principal),he notes that the dilemma exists because sometimes the agent is motivated to act in his own best interests rather than those of the principal. Outsourcing affects thousands of companies and employees every year. Recent studies indicate that 85 per cent of all companies outsource at least one function generating billions of dollars in outsourcing contracts, however, many outsourcing attempts have proved unsuccessful and recent articles blame these failures on failed outsourcing relationships.

In outsourcing, the application of the theory was in the Preparation Phase (when screening for vendors and defining its own attitude towards the type of the relationship). Naturally, the Managing relationship phase has been also explored, and to a very small extent the reconsideration phase.

2.3. Conceptual Framework

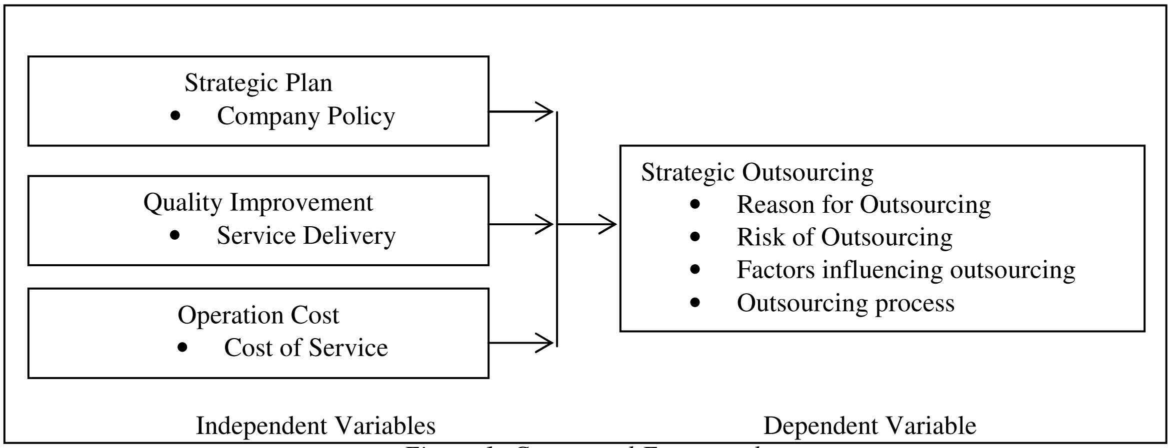

Figure 1: Conceptual Framework.
Source: Author (2015).

2.3.1. Strategic Plan Influence on Strategic Outsourcing

2.3.1.1. The Concepts of Core Competencies and Strategic Outsourcing
The concept of core competence was originally developed by Prahalad & Hamel (1990) and according to them, core competences are the collective learning in organization. According to Goll*et al*,(2007) core competences have three features, first, they provide potential access to a wide variety of markets, second, they make a significant contribution to the perceived customer benefits and third, they should be difficult to imitate and that core competencies are used to create core products, which are not directly sold to customers. In strategic outsourcing, the idea is concentrating on core competencies or activities and outsourcing the rest is a key element (Barney& Hesterly (2010).Quinn(2005)suggested that companies should concentrate on their core competencies and strategically outsource most of the other activities, the challenge now remains on what exactly is a core and whether all non-core activities. According to Magazine for Airline executive (2014). Airlines are continuously evaluating ways to obtain operational and organizational efficiencies while simultaneously achieving some form of cost reduction due to increased operating costs, it notes that Outsourcing allow airlines to more effectively achieve their strategic objectives by lowering operating costs such as employee compensation and benefits, as well as recruiting and training expenses. The level of Outsourcing therefore requires airlines to determine its core and non-core functions for outsourcing. However, airlines have differences on what are core and non-core operations, for instances American Airlines and United Airlines have outsourced their reservations functions, deeming these non-core operations while Frontier Airlines considers its reservations call centre a core operation.

2.3.1.2. Strategic Planning and outsourcing in Airlines
Outsourcing has been said to be influenced by the overall Business Strategy, the management has to determine whether outsourcing is merely a knee-jerk reaction to the call for cost-cutting or it's a strategy that is long-term engagement which is integral to the organization's overall business plan (Frayer*et al*,2000).A well designed Strategic Outsourcing Plan (SOP) creates the context for a successful outsourcing effort as it lays out specific factors that are driving the decision and defines criteria for success (Ghodeswar & Vaidyanathan 2008).
According to (Barney & Hesterly, 2010), the global airline industry operates in service industry complexities within a highly turbulent environment. Keynes (2009) states how the sector has gone through a drastic change on both the supply and the demand side. Unlike other industry airlines are subject to rapid change from customer expectations, competitor moves, supplier developments, government regulations and employee dynamics. Bissessur & Alamdari (2008) stated that with increased liberalization in major airline transport markets; the intensity of competition has increased amongst air carriers. Since Strategic plan is a company long term blue print showing what that company will commit itself in order to achieve its goals, mission and vision, and that outsourcing preserves core competencies, it therefore follows that strategic outsourcing in Airlines is affected by the Airlines strategic planning. Its strategic planning that differentiates core and non-core activities in an organization thus strategic plan have a direct Impact on strategic outsourcing. The idea of focusing on core competencies has been recognized in strategy literature as a critical success factor in long term survival of the Airlines(Momme,2002).Numerous strategies are implemented in by carriers to make sure they maintain their market positions and grow their market share (David, 2011), However there are specific key success factors(KSFs) that when present will ensure success in the airline industry which include public relations and marketing skills, associating with green-field start-ups and understanding the opportunities presented by institutionalized markets (as cited in Johnson *et al,* 2008).
In his study, Shah(2007) notes that Southwest Airlines- a low cost/ low fare carrier- has for more than 30 years focused on team spirit approach, marketing and short versus long haul strategy (David, 2011). Regani (2008) found JetBlue invests heavily on fleet, employee attitude and energy (Barney & Hesterly, 2010).Airlines have learnt the importance of strategic alliances and Strategic Outsourcing among them which leads to stiff competition, In his study of Continental Airlines, Byles (2007) found treaties like "EU-

US Open Skies" bring in stiff competition to nonmembers where British Airways, Virgin Atlantic, American Airlines and United Airlines have the right to fly between United States and London's Heathrow airport and vice versa" (David, 2011). Strategic Alliances thus lead to formation of strategic groups in the industry which become competitors themselves and that Airlines partner to build capabilities that they could not obtain standing alone. According to Yang (2007). Airlines need to focus on their core activities to build excellence. Supportive activities that are not supported by in-house capabilities should be outsourced as the provider is in a better position to deliver his services of specialty. This might include advertisement and catering etc. as its deemed necessary. Go lightly (1967) states how service industries like airlines need to be more strategic due to complex operations such in Airlines Maintenance, labour and Fuel (Laudon & Laudon, 2007).

2.3.2. Quality Improvement and Outsourcing.

The aviation sector has become the most important segment in the economic development of a nation. It plays a vital role in moving people or products from one place to another, be it domestic or international, especially when the distances involved are far. According to Dennet*et al* (2000), in a highly competitive environment the provision of high quality services to passengers is the core competitive advantage for an airline's profitability and sustained growth. In the past decade, as the air transportation market has become even more challenging, many airlines have turned to focus on airline service quality to increase service satisfaction. Saha and Theingi (2009) observed that delivering high-quality service to passengers is essential for airline survival, so airlines need to understand what passengers expect from their services as this is the most crucial step in defining and delivering high-quality service. In order to satisfy customers, Airlines engage in both internal and external activities aimed at achieving consumer sovereignty such as in sourcing and outsourcing.

According to Hamad Al-kaabi(2007), MRO activities such as line maintenance are frequently in-sourced by Airlines, while activities with low demand level such as engine maintenance are often outsourced.

Saleema (2014) noted that outsourcing in Airline is driven by the need to enhance its service quality,to generate greater revenue recognition and provide an added competitive differentiator. He further notes that no matter the reason it is undertaken, outsourcing can impact on the quality of products and services either positively or negatively. For instance, a British Airways subsidiary in India employs 1,200 workers to handle back-office operations for its parent company, as well as for nine airlines outside of its organization. The subsidiary saves the company almost US$25 million a year in direct costs and has expanded its services to include ticketing work for the other airlines through Quality maintenance on its operation. Further, Qatar Airways outsourced revenue accounting so as to focus on its core function(flying) that lead to improved profitability and overall efficiency resulting from well-defined service-level agreements, high-quality processing software and access to detailed data for analysis. Cathay Pacific also retains its own staff at the airports it serves in Australia and New Zealand, the carrier believes that the quality and service standards set by the company can only be effectively offered and maintained by its own staff. They value the crucial role customer-client interface plays and believes outsourcing this role would compromise service levels, leading to potential customer dissatisfaction.

Developing a sound strategy therefore requires a cost-benefit analysis that considers financial expenditures, quality expectations and relationship risks.

Following the outsourcing of all its ICT systems to operational services GmbH & Co. KG (OS), now a T-Systems subsidiary, Fraport outsourced its related service management as well to lower costs and to enhance service quality. By outsourcing its service management for its entire IT systems to operational services, Fraport was free to concentrate fully on running the airport and able to rely on downtime-free operation at all times, in this overall context, Fraport sought to enhance the quality of its services, via assured improvements which further led to a decision also to outsource its service management (T-Systems International GmbH,2014).

According to Carlos (2010), Outsourcing back-end or core processes is not without risk, a large percentage of organizations have failed when they tried to adopt an outsourcing model, for instance some of the reasons why companies abandon outsourcing is because of lower levels of service for internal and external customers, inferior quality of outputs, missed delivery times, cultural misalignment and exposure to other economic and environmental factors. He observed that Quality and performance metrics are usually non-existent and evaluated through a form-performance measurement process at the department or individual level thus Managers need to learn how to manage outsourced resources based on specific performance metrics and less subjective results.

While cost savings may be the initial motivation to outsource, the quality of the work performed is a significant consideration in the selection ofa vendor. Poor quality of maintenance and repair could result in decreased reliability of the aircraft, which in turn quickly erodes any cost savings gained by outsourcing. Reflecting on this reality, a study by US department of Transportation (2003), found that airlines are not simply looking for maintenance at the lowest price, but rather the highest value for money in terms of overall operations. Appropriately, the same survey found that the majority of airlines considered quality of work and service the most important factor in choosing an MRO provider besides cost and ability of the provider to ensure highest aircraft utilization. Further, the study noted that in 1996, in order to press on quality, FAA issued AC 00-56 aimed at the voluntary accreditation of civil aircraft parts distributors, which in turn would assist in alleviating lack of documentation and improve traceability. The AC established that a distributor could be FAA-accredited if its quality-control system was accredited by The Society of Automotive Engineers, American National Standards institute and the Airline Suppliers Association.

2.3.3. Operation Cost on Strategic Outsourcing.

Outsourcing has always been controversial, whether its purpose was to get around unions, take advantage of low-cost labor in other regions, or simply tap the greater expertise and efficiencies of large contractors (Hoecht& Trott,2006). Whatever the reason, somebody invariably loses a job as somebody else gains one, sometimes overseas, and sometimes at far lower wages. The resentment seems to grow exponentially with geographic distance and the gap between the original wages and the new ones (Kakabadse & Kakabadse, 2002). Kakabadse & Kakabadse (2002) stated that mmanufacturing organizations are complex systems that consciously evolve in response to market needs, competition and innovation. Directing this evolution is a key management responsibility that involves making decisions about the configuration and boundary of an organization, to ensure competitiveness relative to market demands and stability. This concept is central to the transaction cost perspective, which asserts that organizations seek to reduce costs (direct costs and associated support costs) by forming alliances or selecting structures and practices that lead to efficiency improvements(Jennings,2002).

Jennings (2002),further suggested that outsourcing not only purchases products or services from sources that are external to the organization, but also transfers the responsibility of the physical business function and often the associated knowledge (tacit and codified) to the external organization. It is this adaptation, driven by transaction cost rewards, functional competitiveness, strategic development and the business pressures of globalization and technological change, that has altered the configuration (how the organization is designed managed and operated) and boundary of the modern manufacturing organization. These changes not only affect an organization's performance, but also the perceived contribution of an organization and its production cost (Kumar & Eickhoff,2005).Kakabadse & Kakabadse (2000) report suggested that the main reasons for outsourcing are access to greater specialization in the provision of services, as outsourcing allows economies of scale and the longevity of demand for the activity, access to quality products and services resulting from access to skills which leads to the competency and focus of potential suppliers as geographical coverage is increased and finally access to innovation which leads to improvements in quality through innovation in development of new products and service products that can lead to new demands. Leavy (2001) also asserts that outsourcing provides certain power that is not available within an organization's internal departments.

Leavy, (2001) further claimed that this power can have many dimensions such as economies of scale, process expertise, access to capital, access to expensive technology, etc. The combination of these dimensions creates the cost savings inherent in outsourcing, because the outsourcing supplier (the organization specializing in a particular business function) has the economy of scale, the expertise and the capital investments in leading technology to perform the same tasks more efficiently and effectively than the internal departments of the outsourcing buyer(Leavy,2004). Kremic*et al,* (2006) noted that the main reasons why firms choose to outsource either manufacturing or product innovation is to reduce costs as they typically incur lower variable costs and reduce fixed costs by outsourcing. Bengtsson*et al*, (2009) recognize that firms may have different strategies in outsourcing, aiming at either lowing cost or improving.

Gray*et al*, (2009) found that low cost priority leads to higher likelihood of outsourcing with quality priority not always systematically impacting strongly on the propensity to outsource.

Outsourcing decisions are therefore made on the basis of an in-depth understanding of the organization's core competencies, and are intended to build or enhance the organization's competitive advantages thus outsourcing becomes strategy aimed at lowering cost of production and at the same time not compromising quality. By eliminating a sizable in-house function, operational costs should decline, the need to constantly add new technology or equipment to keep up with capacity and the technology curve places a hidden cost pressure on customer communication functions (Kumar & Eickhoff, 2005).Based on the above, outsourcing can then lower capital outlay for technology and equipment, thereby driving down costs, reducing risk and freeing resources for other uses.

Mol(2007), observed that any operation that dedicates itself single-mindedly has a greater likelihood of perfecting its systems and business processes, thus for instance a partner that specializes in customer communications can offer cost efficiencies such as postal discounts for printed statements and strategic partnership advantages in the electronic arena thereby turning around time by lowering cost while improving quality control.However, Olsztynski (2005) states that though compelling, cost efficiencies may prove to be one of the less important reasons for moving to an outsourcing solution when considering the opportunities outsourcing provides to drive revenue and increase market share through improved customer relationships. The issue of achieving operational cost savings while maintaining tight control over the service provider's actions corresponds to clients' strong expectations about vendors' productivity efforts, so that a high level of quality is maintained throughout the term of the contract and not necessarily cost as has been suggested by most research work (Perkins, 2004).

A study by Mc Ivor(2000) found out thatthe frequently cited operational cost savings motive cannot be dissociated from a continuous control and monitoring of the quality of services provided. Savings must then be achieved at the cost of monitoring the supplier's performance, as outsourcing necessarily means a loss of direct control over quality, timing and service provision. On the other hand, he observed that outsourcing could increase the productivity of firms as there is a trade-off between production costs and transaction costs. Outsourcing could reduce the production costs, but it will increase external transactions costs, which are the result from dealing with a third party. Outsourcing could lead to an increase in firm productivity if it reduces production costs more than it increases transaction costs. Hence, outsourcing can become more attractive when the difference in production costs increases or when advances are made in transaction technology. Therefore, innovations that reduce transaction costs could make outsourcing more attractive and increase productivity. Den *et al,* (2008) also show that trade innovations can explain productivity at the national level.

When a firm experiences cyclical output over time, it may not have enough capacity for the peak periods, since this implies having too much capacity in periods with less demand. Instead, the firm could choose to outsource part of the production process in the peak periods. The third reason is economies of scale i.e. if for some part of the production process economies of scale apply, costs will be lower if all firms outsource this particular part to another party, however companies considering BPO as a strategic option should carefully consider the complete cost picture before embarking on the journey. As part of the BPO evaluation, several cost components need to be considered that are often forgotten but that can have a significant impact on the overall profitability of the endeavour (Perkins, 2004), Such cost include integration costs, costs of a potential exit, several possible types of shadow costs, and costs that occur during the lifetime due to scope creep or gliding cost paths(Olsztynski, 2005).

2.3.4. Strategic Outsourcing

Outsourcing is divided into two categories: strategic and non-strategic. Outsourcing is considered strategic if a company has a strategic policy for outsourcing and it is prepared to consider outsourcing also activities which are traditionally considered core activities (Barney &Hesterly, 2010). According to Mclover (2000). The literature on strategic outsourcing can be categorized into three classes: The first class shows the work of scholars who believe strategic outsourcing is possible by identifying factors that have both the short-term and long-term impact on the make/buy decisions. The second category of the literature represents the work of those who believe the main determinant of an outsourcing policy is the type of activity that is being considered for outsourcing. General consent is that core activities should be kept in-house, and only non-core activities are good candidates for outsourcing. The third class of literature on outsourcing deals with various other issues of concern in an outsourcing decision.

2.3.4.1. Reasons /Importance of Outsourcing

A journal by Shen& Yu (2013), stated that outsourcing to be facilitated by: Lack of skilled professionals in areas such as extensive investments in technology, methodologies and people, focus on core business thus improving efficiency, increase customer satisfaction and foster critical thinking on strategic issues and access best services at a lower cost and avoid cost of starting from the scratch and keep pace with rapidly changing modules.

Gavin, (2010) developed a different view and argued that the purpose of outsourcing is to get the benefits associated with: reduced costs such as employee benefits like medical or vacation time and office space for employees and production as they are not needed and thus those savings can then be used for marketing and growing the business, reduction of training expenses and time as the less time you spend training employees, the more time you can spend on income-producing activities, increased efficiency as outsourcing allows one to focus on what you do best hence the overall quality of the business will increase when some functions are outsourced.

2.3.4.2. Risk of Outsourcing

According to Kakouris*et al,* (2006) outsourcing has been blamed on risk of exposing confidential data such data on outsourced HR, payroll and recruitment services, as it involves a risk if exposing confidential company information to a third-party, Synchronization of the deliverables such as stretched delivery time frames, sub-standard, low quality output and inappropriate categorization of responsibilities, hidden costs such as threat from cross border signing of such contract, lack of customer focus as vendors may lack complete focus on quality of the task. It has also been blamed for loss of managerial control as it transfers control of the outsourced function over to the other company despite having the contract thus the company will not be driven by the set standards that exist in the organization but by profits from outsourcing their products/services (Belcourt, 2006).According to Asika,(2004), quality problems arise as the outsourcing company will be motivated by profit since the contract will fix the price, the only way for them to increase profit will be to decrease expenses thus as long as they meet the conditions of the contract, in addition a company will lose the ability to rapidly respond to changes in the business environment.

2.3.4.3. Factors that influence Outsourcing Decisions

According to Power *et al*(2004) factors that affect outsourcing decisions are:

Technical Expertise: This is due lack of technical knowhow within the company on a given activity. This access to technical expertise should also include knowledge transfer from the vendor to your in-house team as well;Quality: Many companies outsource to get quality products or services which they cannot get from their internal processes .However the search for quality must not suffer in the hands third parties;Overall Business Strategy: This is facilitated by the question on whether outsourcing is merely a knee-jerk reaction to the call for cost-cutting or it's a strategy on long-term engagement that is aimed at achieving company goals and objectives.

Sepehri(2013) stated that the factor outsourcing is influenced by control of competency were superiority of the product is of major concern that will enable the company achieves its target goals.The intellectual property issue is also major issue driving Airline companies to outsourcing since the product/service/process is only available to patented vendor.Quinn (2005) advised that outsourcing strategy must match its overall strategy in which the overall strategy is the basis of the enterprises in developing specific initiatives and this not only determines the outsourcing decisions, but also affects the outsourcing object and model, as well as the choice of suppliers. David (2011) states that another factor affecting Outsourcing in Airlines is whether it's tactical or strategic, an outsourcing is tactical when it is driven by a desire to solve a practical problem and its Strategic if it's aligned with the company's long-term strategies (Vulkan, 2008).

2.3.4.4. Functions Often Outsourced.

Outsourcing started with companies outsourcing physical parts (Quinn, 2009). Now the big shift has been to outsource intellectually-based service activities, like logistics, marketing or research (Ibid). According to study conducted by Outsourcing Institute in 1997, outsourcing is focused on things like information technology (30%), human resources (16%), marketing and sales (14%),finance (11%) and administration (9%) (Porter, 2000).

According to Quelin & Duhamel (2003) activities which are partially or completely outsourced in a large number of companies are: office information technology, industrial maintenance, waste management, logistics and telecommunication. As well, Quelin & Duhamel (2003) have noticed that the functions which are morecentral to many companies' critical activities, such as marketing, finance, accounting and sales, remain the least affected by outsourcing. Even thought, these more central activities have only been outsourced by much smaller proportion of firms, this proportion is growing (Lonsdale & Cox, 2000).
In the past virtually all of an airline's operation were considered core since they were performed 'in house'. Robertson (2007) attributes this to airlines in the 1940s grew from the ground up and the option to outsource was simply nonexistent. Outsourcing has been a feature of the airline industry since the early days of commercial aviation. Airlines typically outsource a broad range of business processes: aircraft maintenance, baggage and ground handling and in-flight catering may not be provided or performed by the airline, and some or all of its reservation, ticketing and departure control systems will be provided or maintained by service providers on its behalf. As in other industry sectors, some IT and business functions, such as finance and accounting or payroll services, may also be outsourced.

2.3.4.5. Outsourcing Process
According to Loral(2011),a multi-step approach, including Planning, Analysis, Design, Implementation and Operations phases along with a contingency exit strategy is required to achieve a successful outsourcing implementation.
Defining Goals and Objectives: An understanding of the company's objectives provides insight into the type of relationship your company is seeking and how the outsourcing initiative should be managed.
Selecting the Processes to be Outsourced: Processes that are highly transactional and have low strategic value (non-core) to the organization are typically good candidates for outsourcing.
Typical Outsourcing Strategy Risks: Outsourcing relationships fail when they are viewed as short-term or tactical solutions, rather than part of long-term strategic plans. To be effective, the process of considering an outsourcing solution large or small, long-term or short-term must be systematic and fully documented.
Duration of the Outsourcing Project: outsourcing need not be an "all or nothing" venture. It's possible to utilize outsourcing for a short-term clean up or to take on only part of the internal department's duties.

2.4. Summary of Literature Review
The literature review clearly indicates that the strategic outsourcing is majorly built on premise of reduction on operational cost aimed at achieving competitive advantages by the Kenya Airways. This has been facilitated by the dynamic nature of the industry resulting from technological advancement, mergers and acquisition as well as entry to the local market by well-established International Airlines.
In Outsourcing process, Quality cannot be compromised as much as cost reduction is critical thus Airlines have struck a balance between the cost and Quality since customers will always match quality against cost for the service offered.
For any successful outsourcing, companies have first to plan; the plan should be a reflection of short term, midterm and long term goals of the Organization. Thus for outsourcing to work, it has to be built on Companies strategic plans so that it achieves the objectives which are in line with the company short term and long term goals.

2.5. Critique of Literature
Outsourcing has been criticized on its perception that there exist qualified and trust worthy experts outside. However, this may not be the case as depicted by hardships Boeing 787 Dreamliner went through as a result of faulty parts outsourced from Japan. Strategic problems can arise from off shoring production to another part of the world, especially if it is poorly thought out, for instance the more the firms spread their operations around the globe, the more vulnerable they become to disruption from unexpected events such as natural disasters or political unrest, these may drain out the benefits achieved by outsourcing. In addition, outsourcing companies try to sell more and better widgets to customers than their rivals down the road. Often, the more a firm off shores and outsources, the worse it will be at responding to customers quickly. Moreover, it is not always possible to make more and more profit out of less and less product and that there is a strong risk of going out of business directly as a result of this policy.
Although outsourcing in Airline is built on premise of low cost, critics of the outsourcing have become increasingly more vocal about their worries that although outsourcing indeed slashes the costs, it does so at the potentially high price of safety, for instance maintenance and repair shops located overseas are difficult to monitor so as to ensure quality is not compromised.Among the victims of poor quality outsourcing is Boeing's 787 Dreamliner which has suffered numerous electrical system flaws beyond the battery problems that led to its grounding, according to engineers with knowledge of the situation, they blamed the 787's outsourced supply chain, saying that poor quality components were outsourced from subcontractors who have operated largely out of Boeing's view.

2.6. Research Gaps and Ethics
Kenya Airways is one of the best airlines in the world and has been awarded the prestigious COYA Award several times as best Airline in Africa ahead of Ethiopia and South Africa Airline. Ethical issues that may arise may involve disclosure of information that management considers sensitive to be released and a possible leak of the information to the competitor. A lot of literatures exist on strategic outsourcing mostly majoring on risk of outsourcing, factors to consider in strategic outsourcing etc. but little has been done on strategic outsourcing in Airlines. There exists a gap therefore in literature on factors influencing strategic outsourcing in Kenya Airways which this study seeks to fill.

3. Research Methodology

3.1. Introduction

This chapter outlines the methods that were used for the study; the proposal adopted the following structure: research design, population and sample, population description, data collection methods, research procedures and data analysis and methods.

3.2. Study Design

The study adopted a descriptive survey design as it aims at collecting information from respondents on factors affecting strategic outsourcing in Aviation industry in Kenya. Khan, (1993) recommends descriptive survey design for its ability to produce statistical information about aspects of education that has interesting policy makers and researchers. Descriptive survey research designs are used in preliminary and exploratory studies to allow the researchers gather information, summarize, present and interpret data for the purpose of Clarification (Orodho, 2003). According to Mugenda & Mugenda (2003) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design was chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected.

3.3. Study Population

The population targeted comprised of the entire KQ Workforces that totals to four thousand employees (4,000).Mombasa is being selected as the study site due to proximity to the researcher, time available for research and budgetary constraints.

3.4. Sample Size Selection and Sampling Procedure

To determine the size of the sample to be used, the Taro (1973) formula was used. It states that the desired sample size is a function of the target population and the maximum acceptable margin of error (also known as the sampling error) and it's expressed mathematically as:

$$n=\frac{N}{1+Ne^2}$$

$$\frac{100}{1+100(0.05)^2}$$

$$47$$

80 Respondents

Where:
n =sample size
N = target population
e =maximum acceptable margin of error (5%)
Thus in this study, the desired sample sizewas 80 from a population of 100.

Department	Target Population	Sample Size
Technical	30	22
Finance	15	10
Ground Operation	20	15
Human Resource	10	7
Commercial	20	16
MD	15	10
Total	100	80

Table 1:Target population and sample size

3.5. Sampling Technique

A sample size was selected using purposive sampling. According to Cresswell and Plano (2011). Purposive sampling involves identifying and selecting individuals or groups of individuals that are especially knowledgeable about or experienced with a phenomenon of interest. Thus the researcher used the method because of the researchers deep understand of the Company Management.

3.6. Data Collection Instruments and Research Instruments

Data was collected using Questionnaires which was administered to the respondent's; the Instrument was used because it covers a large number of respondents at relatively shorter period of time. In addition, it gives respondent a privacy to give free and independent opinions because of absence of the researcher. The study relied on data collected through a questionnaire structured to meet the objectives of the study. According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. Each item was developed to address specific themes of the study and each respondent selected were briefed on how to fill in the questionnaire. The respondents were given a time frame within which they are to respond to the questionnaire after which the questionnaire was collected by the researcher on the agreed time. The study used questionnaires because it is less costly and not time consuming.

3.7. Data Collection Procedure

The researcher collected both primary and secondary data. Primary data was collected from respondents using a questionnaire that was distributed to respondents in their offices. Secondary data was collected from Books, Journals, Magazine, Newspapers etc.

3.8. Pilot test

The study first embarked on Jambo Jet which is a new and smaller company using eight respondents before it is rolled over to Kenya Airways were a sample of eighty respondents will be used.

3.9. Data Analysis

The process of data analysis involves data clean up and explanation, after that the data was then be coded and checked for any errors and omissions (Kothari, 2004).

Multiple regression models were used to analyse data so as to determine whether the sets of independent variables together predict the dependent variable. The regression model was in the form:

$Y=\beta0+\beta1X1+\beta2X2+\beta3X3+\varepsilon$

Where;

β0 - Is the constant or intercept

β1-3 - Are the regression coefficients or change induced in Y by each X

X1 - Independent variable strategic plan influence on strategic outsourcing.

X2 - Independent variable quality improvement influence on outsourcing.

X3 - Independent variable production cost influence on strategic outsourcing

Y - Dependent Variable Strategic Outsourcing.

ε - Is the error component

4. Data Analysis and Presentation

4.1. Introduction

This chapter presents data collected from the field, its analysis, and finally the interpretation of the findings on the factors influencing the outsourcing practices in Kenya Airways. The data is presented in form of tables, charts and graphs.

4.2. Response Rate

80respondents were targeted by this study of which 70 filled in and returned the questionnaires making a response rate of 87%. This response rates were excellent and representative and conform to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This implies that based on this assertion, the response rate in this case of 88% is therefore very good.

The recorded high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended study, utilized a self-administered questionnaire where the respondents completed and these were picked shortly after and made follow up calls to clarify queries as well as prompt the respondents to fill the questionnaires.

4.3. Demographic Data

The study sought to establish the demographic data of the respondents. The demographic characteristics that were explored were: age bracket, level of education and duration of being employed in the company are outlined in this section.

4.3.1. Gender Distribution

The research sought to find out the gender distribution of the respondents as shown in the Figure 2.

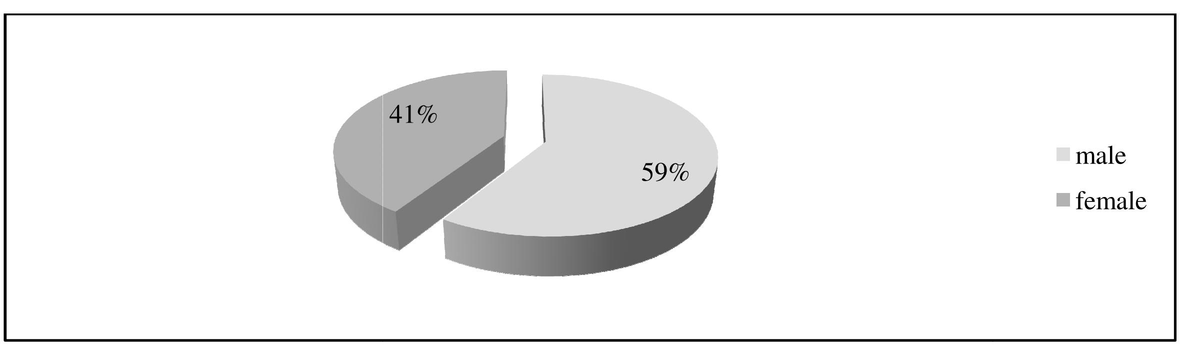

Figure 2: Gender Distribution

From the findings presented in Figure 2 above, 59% of the respondents covered in this study were female while male respondents made up 41% of the respondents. The majority of the respondents were male.

4.3.2. Age bracket of respondents

The study sought to find out the age distribution of the respondents as shown in the Table 2 below:

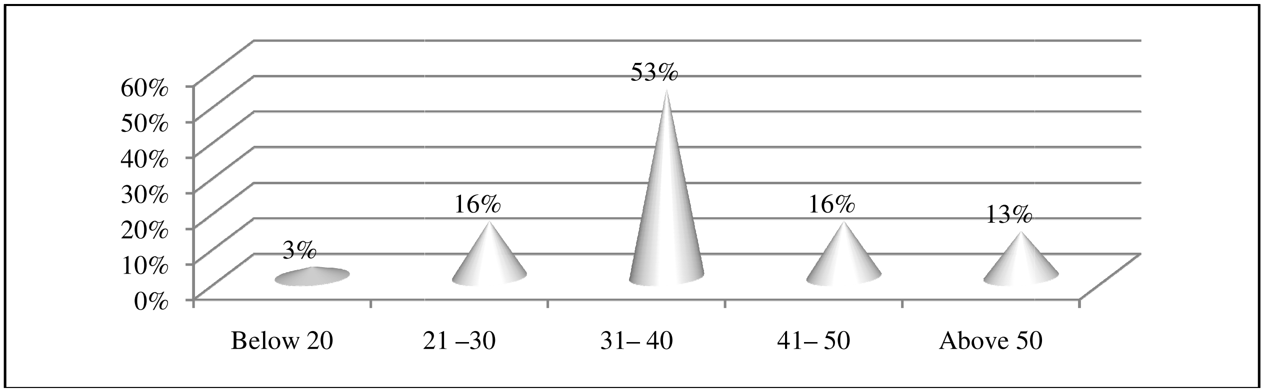

Figure 3: Age bracket

Figure 3above present findings on distribution of respondents by age category. From the findings, 3% of the respondents were of age category of below 20 years followed by those of age category 21 –30 years at 16%. Age category 31-40 years was represented by 53% while age category 41-50 years made up 16%. Respondents above 50 years made up 13% of the respondents.

4.3.3. Education Level

The study further sought to establish the highest level of education attained by the respondents as shown below:

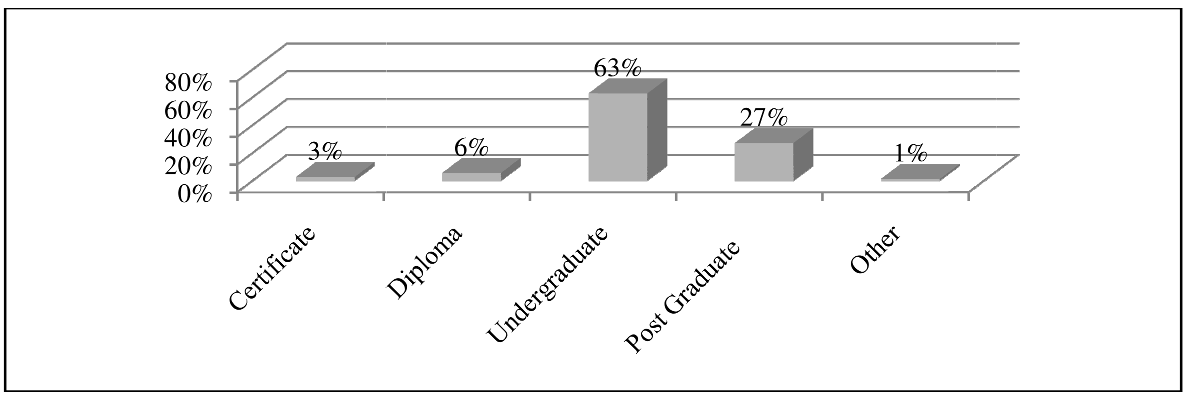

Figure 4: Highest Education Level

Figure 4 above present’s findings on distribution of respondents by the highest level of education attained. From the findings, majority (63%) of the respondents were undergraduates, followed by 27% of the respondents had a postgraduate degree, 3% of the respondents had certificate education while 1% of the respondents o-level.

4.3.4. Distribution of respondents by duration in the company

The study sought to determine the length of time that the respondents had been working with the company (in years). The findings are presented in the figure below:

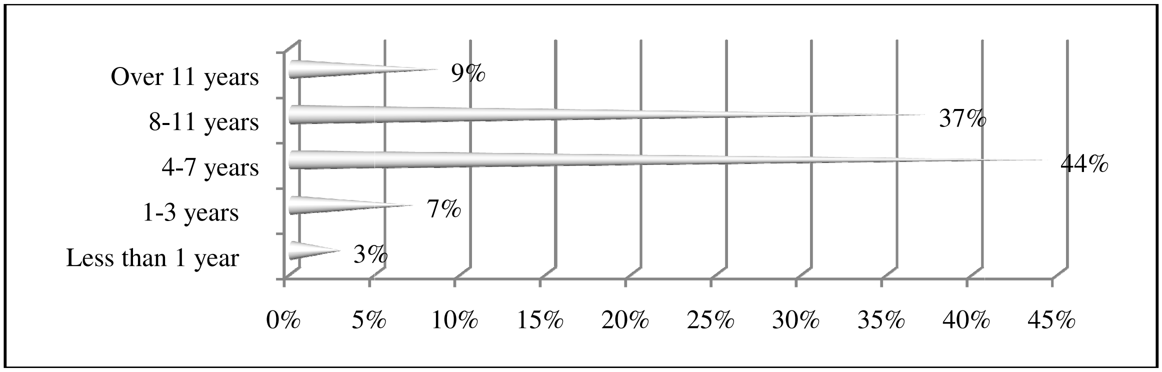

Figure 5: Length of Time Working with the Company

Figure 5 above present findings on length of time that the respondents had been working with the company. From the findings, 3% of the respondents had respondents had been working with the company for up to 1 year, 7% had been working with the company for between 1-3 years, 44% had been working with the company for between 4-7 years,37% had been working with the company for between 8-11 years while only 11% had been working with the company for between for over 11 years.

4.4. Strategic Plan and Strategic Outsourcing

4.4.1. Company Goals

The study sought to find out whether the Company goals are set by the relevant level of Management:

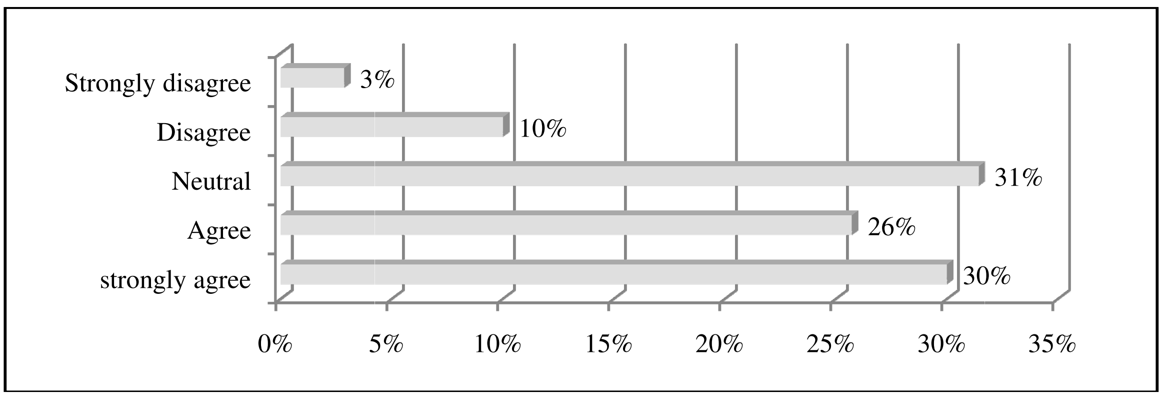

Figure 6: Company goals set by relevant management level

From the data findings, a majority 31% of the respondents were neutral on the statement that the Company goals are set by the relevant level of Management,31% of the respondents strongly agree with the statement, 26% of the respondents agreed with the statement, 10% of the respondents disagreed with the statement, while 3% of the respondents Strongly disagree with the statement that the Company goals are set by the relevant level of Management.

4.4.2. Existence of Company Long Term Strategic Plans

The study sought to establish whether the Company has long term strategic plans

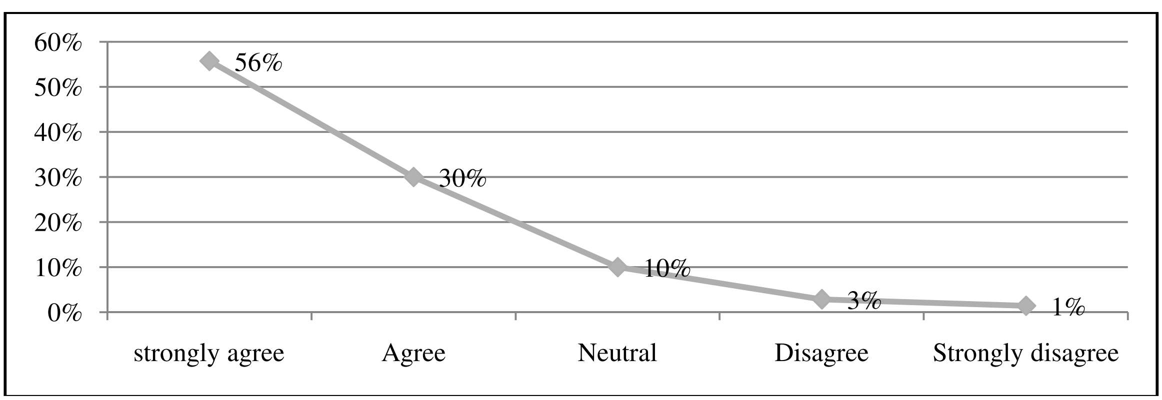

Figure 7: Long Term Strategic Plans

From the findings, a majority (56%)of the respondents strongly agreed that the Company has long term strategic plans, 30% of the respondents agreed that the Company has long term strategic plans, 10% of the respondents were neutral that the Company has long term strategic plans, 3% of the respondents disagreed that the Company has long term strategic plans, while only 1% of the respondents Strongly disagree that the Company has long term strategic plans.

4.4.3. Opinion of Respondents if the Company Outsources Some of Its Activities

The study sought to find out whether the Company outsources some its activities

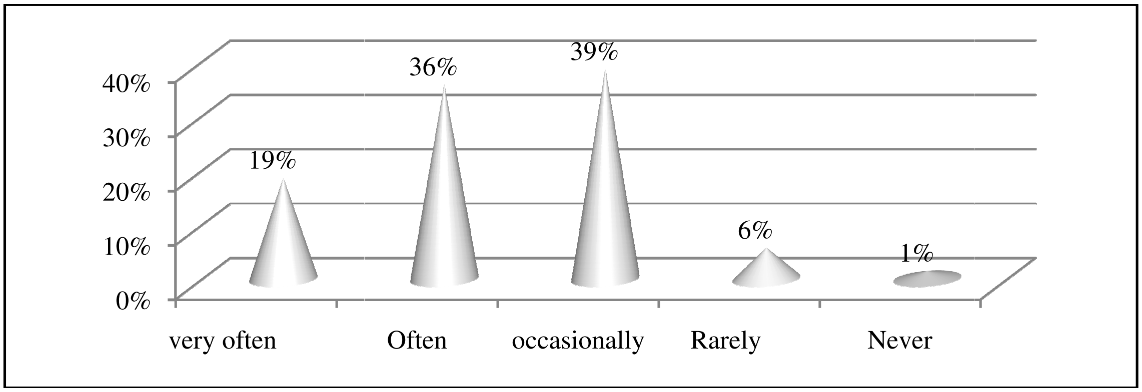

Figure 8: Activities outsourced by the company

From the findings,19% of the respondents indicated that the Company outsources some its activities very often, 36% of the respondents indicated that the Company outsources some its activities often, 39% of the respondents indicated that the Company outsources some its activities occasionally, 6% of the respondents indicated that the company outsources some its activities Rarely while 6% of the respondents indicated that the Company Never outsources some its activities.

4.4.4. Outsourcing Decisions Are Based on the Company's Strategic Plans

The study further sought to find out whether the outsourcing decision based on the company strategic plans.

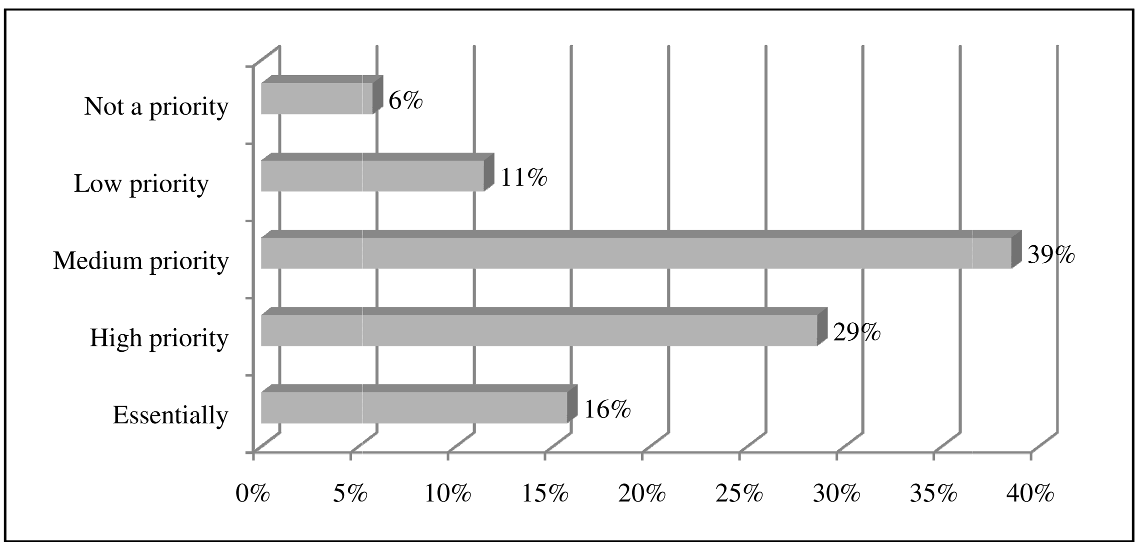

Figure 9: Outsourcing as the company strategic plans

From the findings,39% of the respondents indicated that the outsourcing decision based on the company strategic plans as a Medium priority,29% of the respondents indicated that the outsourcing decision based on the company strategic plans as a High priority,11% of the respondents indicated that the outsourcing decision based on the company strategic plans is not a priority.

4.4.5. Company Policy as Indicator of How the Strategic Plans Performs

The study sought to establish the respondents' level of agreement on if the Company policy is an indicator of how the strategic plans are performing

	Frequency	Percent %
Strongly agree	9	13%
Agree	11	16%
Neutral	25	36%
Disagree	17	24%
Strongly disagree	8	11%
Total	**70**	**100%**

Table 2: Company policy as an indicator of how strategic plans perform

From the data findings, 13% the respondents strongly agree that the company policy is an indicator of how the strategic plans are performing, 16% the respondents agree that the company policy is an indicator of how the strategic plans are performing, majority (36%) the respondents were Neutral on the statement that the company policy is an indicator of how the strategic plans are performing, 24% the respondents Disagreed that the company policy is an indicator of how the strategic plans are performing, while as 8% the respondents Strongly disagree that the company policy is an indicator of how the strategic plans are performing.

The findings relate with those of Quinn(2005) who found that companies should concentrate on their core competencies and strategically outsource most of the other activities, the challenge now remains on what exactly is a core and whether all non-core activities. Airlines are continuously evaluating ways to obtain operational and organizational efficiencies while simultaneously achieving some form of cost reduction due to increased operating costs, it notes that Outsourcing allow airlines to more effectively achieve their strategic objectives by lowering operating costs such as employee compensation and benefits, as well as recruiting and training expenses.

4.5. Quality Improvement and Strategic Outsourcing Plan

4.5.1. Existent of Quality Control Department in the Company

The study sought to find out whether the Company have quality control department

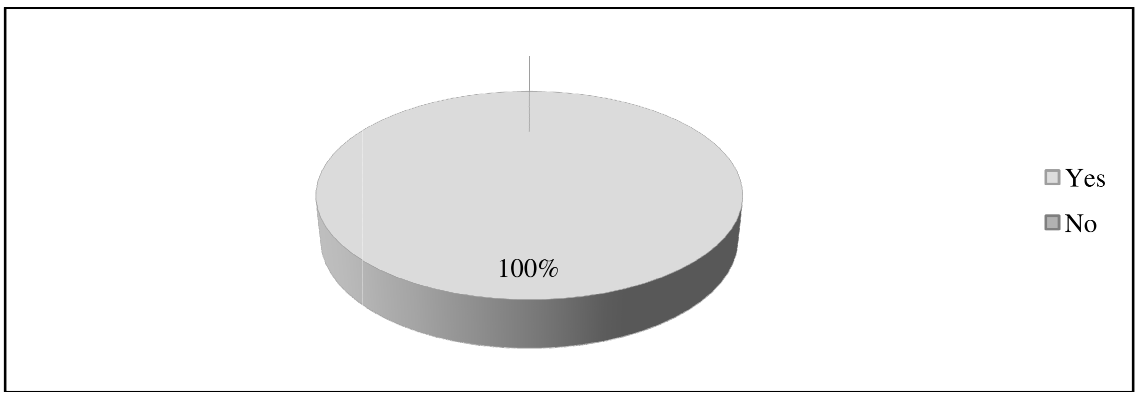

Figure 10: Existence of the company quality control department

Asked whether the Company have quality control department all the respondents (100%) agreed.

4.5.2. Quality Maintenance as a Continuous Process

The study further sought to find out whether the quality maintenance a continuous Process

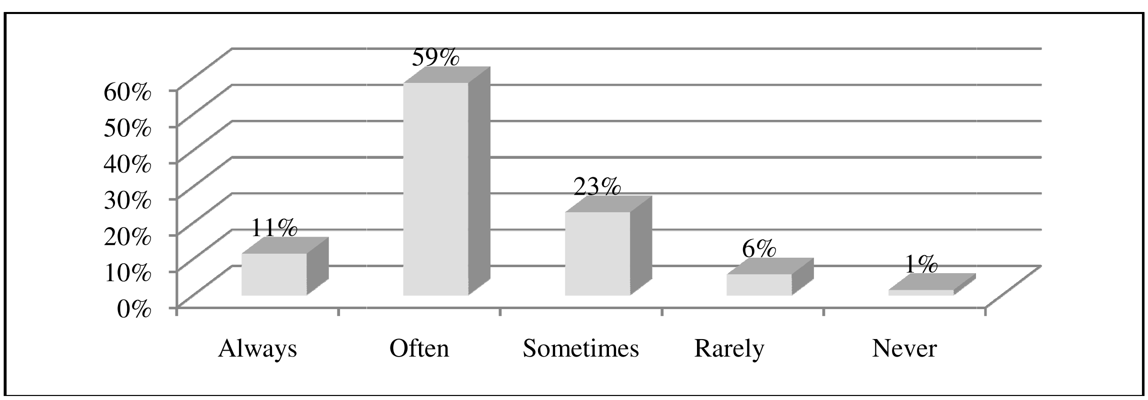

Figure 11: Quality maintenance

From the data findings, majority (59%) of the respondents indicated that the quality maintenance is often a continuous Process, followed by 23% of the respondents indicated that the quality maintenance is sometimes a continuous Process, 11% of the respondents indicated that the quality maintenance is always a continuous Process,6% of the respondents indicated that the quality maintenance is rarely a continuous Process, while as 6% of the respondents indicated that the quality maintenance is Never a continuous Process.

4.5.3 Quality Maintenance and Improvement cut across all the Departments
The study sought to find out whether the quality maintenance and improvement cut across all the departments

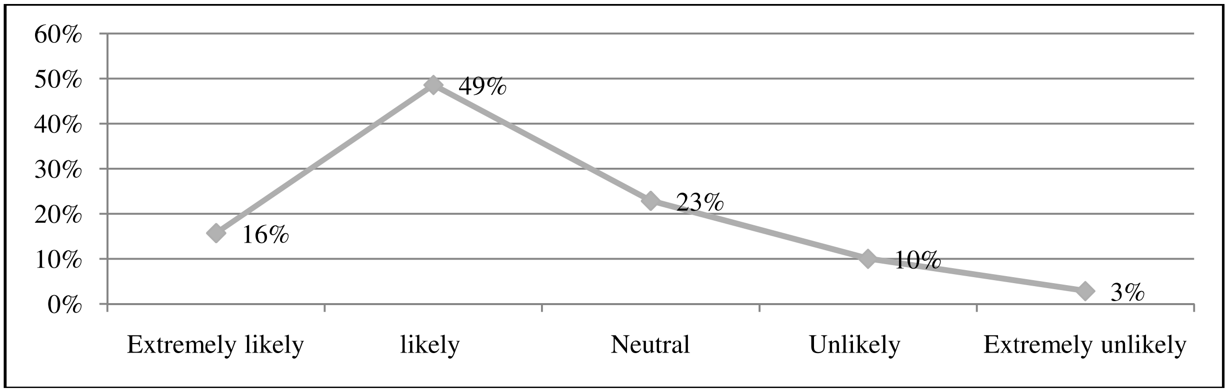

Figure 12: Quality maintenance and improvement cut across all the departments.

The study finding revealed that majority of the responses 49% were of the opinion that it is likely that the quality maintenance and improvement cut across all the departments, while as 3% of the responses were of the opinion that it is extremely unlikely that the quality maintenance and improvement cut across all the departments.

4.5.4 Quality Improvement and Maintenance as Major Competitive Edge
The study sought to establish the respondents' level of agreement on if Quality improvement and maintenance is a major competitive edge in service industry.

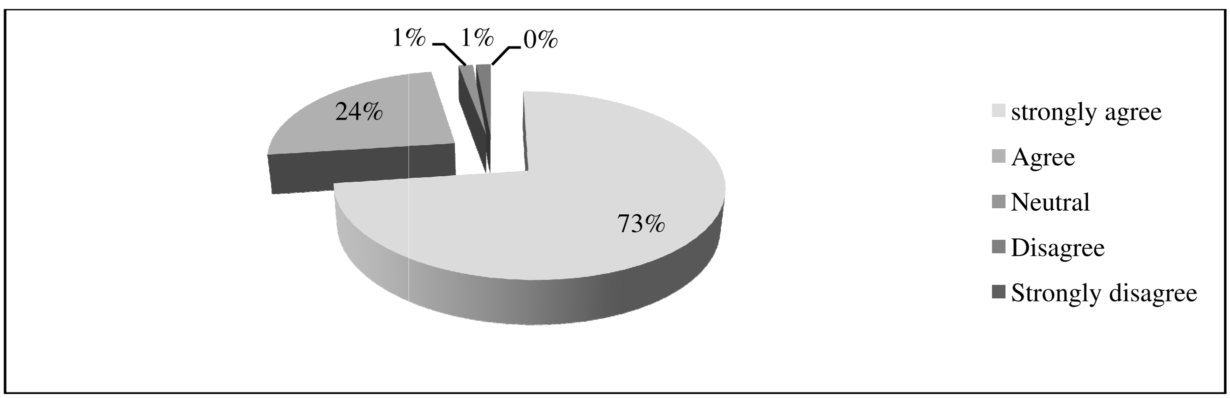

Figure 13: Quality improvement and maintenance as a major competitive

From the data findings, 73% the respondents strongly agree that the quality improvement and maintenance is a major competitive edge in service industry, 24% the respondents agree that the quality improvement and maintenance is a major competitive edge in service industry 1% the respondents were Neutral on the statement that the quality improvement and maintenance is a major competitive edge in service industry, 1% the respondents Disagreed that the quality improvement and maintenance is a major competitive edge in service industry, while as non the respondents Strongly disagree that the quality improvement and maintenance is a major competitive edge in service industry.

4.5.5. Quality Improvement Decisions Influence on Outsourcing Decisions
The study sought to find out whether the Quality improvement decisions influence outsourcing decisions in Kenya Airways.

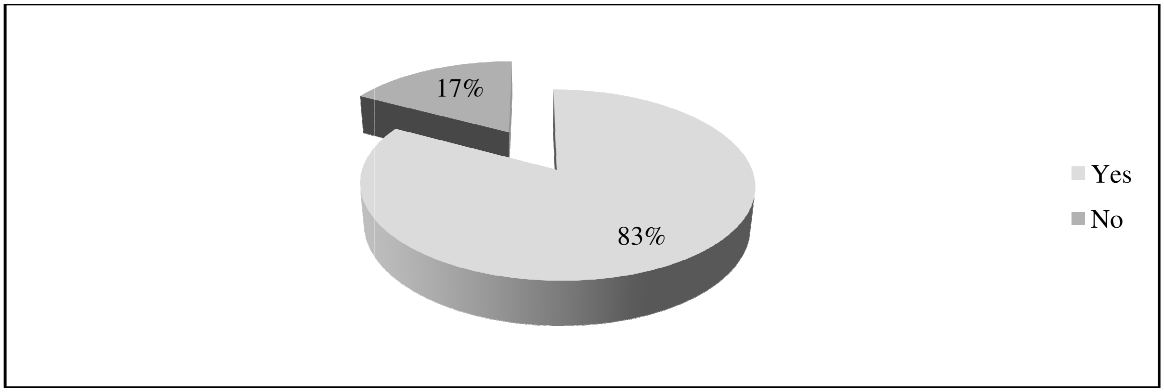

Figure 14: Quality improvement decisions influence on outsourcing decisions KQ

Asked whether the quality improvement decisions influence outsourcing decisions in Kenya Airways, the study finding revealed that majority (83%) of the responses agreed while 17% did not agree.

4.4.6. A Good Service Delivery as an Indicator of Strong Quality Maintenance

The study sought to establish the respondents' level of agreement on if a good service delivery is an indicator of strong quality maintenance/improvement.

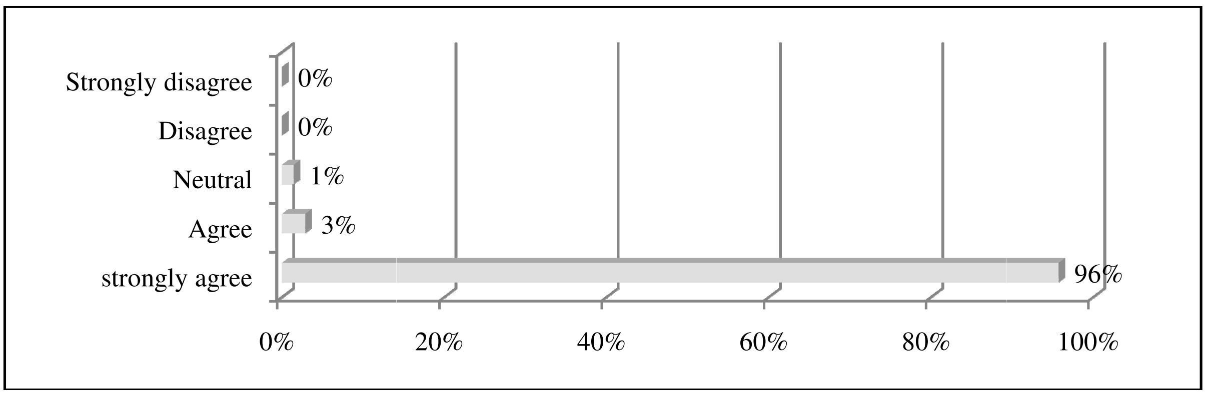

Figure 15: A good service delivery is an indicator of strong quality maintenance

From the data findings, majority (96%) the respondents strongly agree that a good service delivery is an indicator of strong quality maintenance/improvement, 3% the respondents agree that a good service delivery is an indicator of strong quality maintenance/improvement.1% the respondents were Neutral on the statement that a good service delivery is an indicator of strong quality maintenance/improvement, while as non the respondents Strongly disagree that a good service delivery is an indicator of strong quality maintenance/improvement.

The findings collaborate with those of Saha and Theingi (2009) who observed that delivering high-quality service to passengers is essential for airline survival, so airlines need to understand what passengers expect from their services as this is the most crucial step in defining and delivering high-quality service. In order to satisfy customers, Airlines engage in both internal and external activities aimed at achieving consumer sovereignty such as in sourcing and outsourcing.

4.6. Operation Cost on Strategic Outsourcing

4.6.1. Strategies of Maintaining Low Operation Cost

The study sought to find out whether the Company has strategies of maintaining low Operation cost

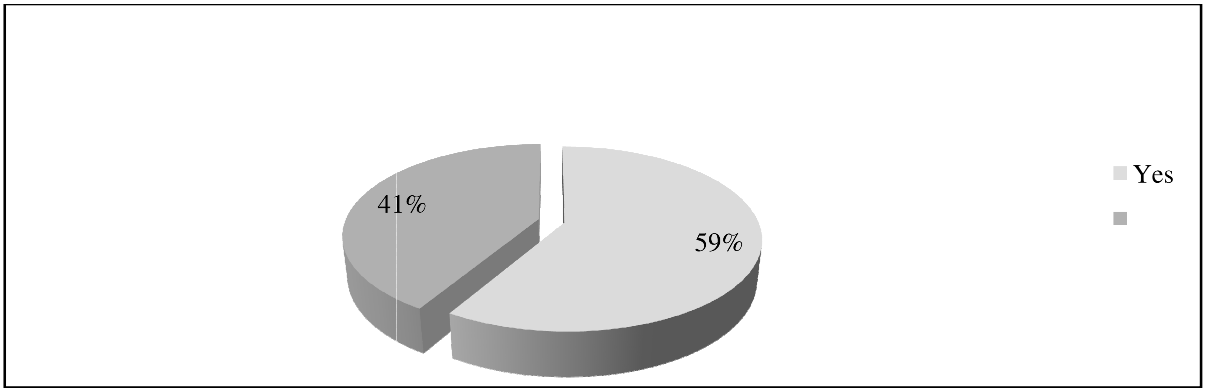

Figure 16: Strategies of maintaining low operation cost

Asked whether the whether the Company has strategies of maintaining low Operation cost, the study finding revealed that majority (59%) of the responses agreed while 41% did not agree.

<u>4.6.2. Operation Cost Decisions</u>

The study sought to find out whether the Operation cost decision made by top management in collaboration with all stakeholders, i.e. middle management and staff.

	Frequency	**Percent %**
strongly agree	19	27%
Agree	34	49%
Neutral	10	14%
Disagree	5	7%
Strongly disagree	2	3%
Total	**70**	100%

Table 3: Operation cost decision made by top management in collaboration with all stakeholders

From the data findings, 27% the respondents strongly agree that the operation cost decision made by top management in collaboration with all stakeholders, 49% the respondents agree that the operation cost decision made by top management in collaboration with all stakeholders, 14% the respondents were Neutral on the operation cost decision made by top management in collaboration with all stakeholders, 7% the respondents Disagreed that the operation cost decision made by top management in collaboration with all stakeholders, while as 3%the respondents Strongly disagree that the operation cost decision made by top management in collaboration with all stakeholders.

<u>4.6.3. Influence of Operation Cost on Outsourcing Decisions</u>

The study sought to find out whether the operation cost influences Outsourcing decisions

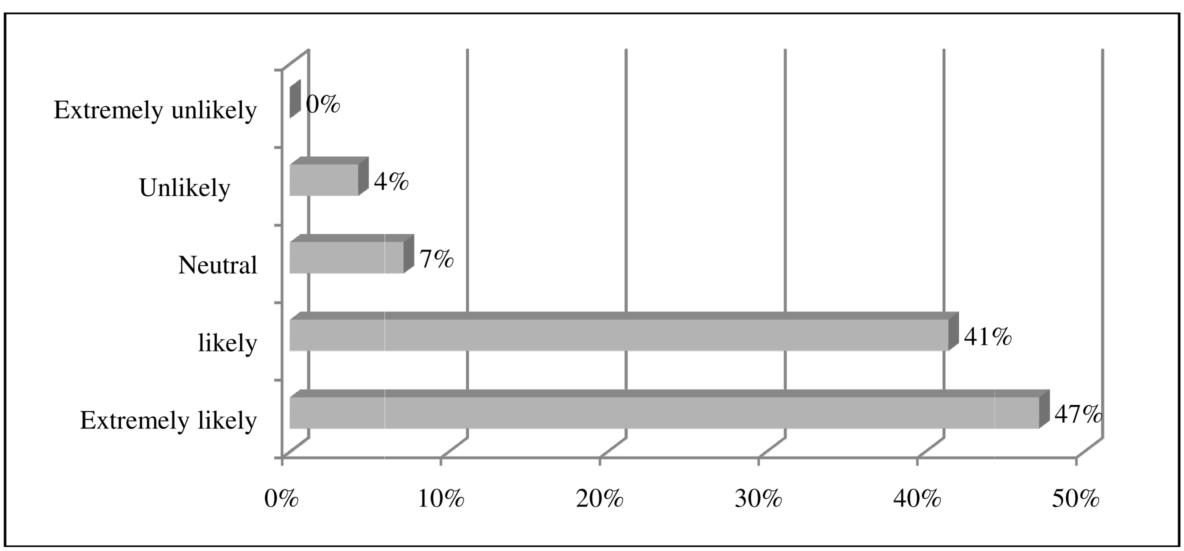

Figure 17: Influences of operation cost on outsourcing decisions

The study finding revealed that majority of the responses 47% were of the opinion that the operation cost is extremely likely to influences Outsourcing decisions,41% were of the opinion that the operation cost is likely to influences Outsourcing decisions,41% were of the opinion that the operation cost is likely to influences Outsourcing decisions,7% were Neutral that the operation cost influences Outsourcing decisions, while 4% were of the opinion that the operation cost is unlikely to influences Outsourcing decisions.

4.6.4. Cost of Service as an Indicator of Cost Planning

The study sought to establish the respondents' level of agreement on if cost of service is an indicator of how operation cost planning in efficient.

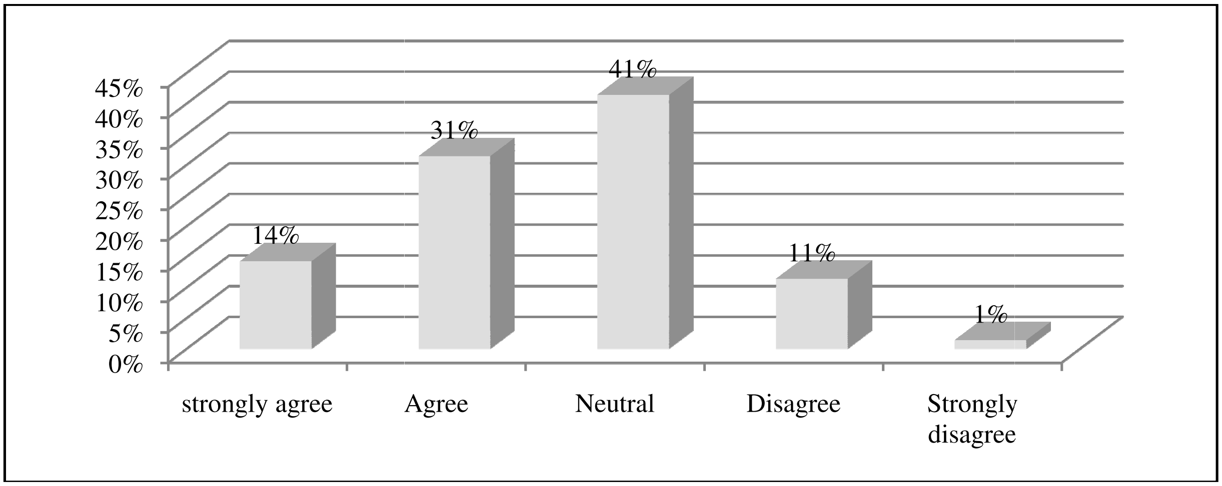

Figure 18: Cost of Service

From the data findings, 14% the respondents strongly agree that the Cost of service is an indicator of how operation cost planning in efficient, 31% the respondents agree that the Cost of service is an indicator of how operation cost planning in efficient, 41% the respondents were Neutral on the Cost of service is an indicator of how operation cost planning in efficient, 11% the respondents Disagreed that the Cost of service is an indicator of how operation cost planning in efficient, while as 1% the respondents Strongly disagree that the Cost of service is an indicator of how operation cost planning in efficient.

4.6.5. Operation Cost Influence on Outsourcing Decisions

The study sought to establish the respondents' opinion on if operation cost influences outsourcing decisions

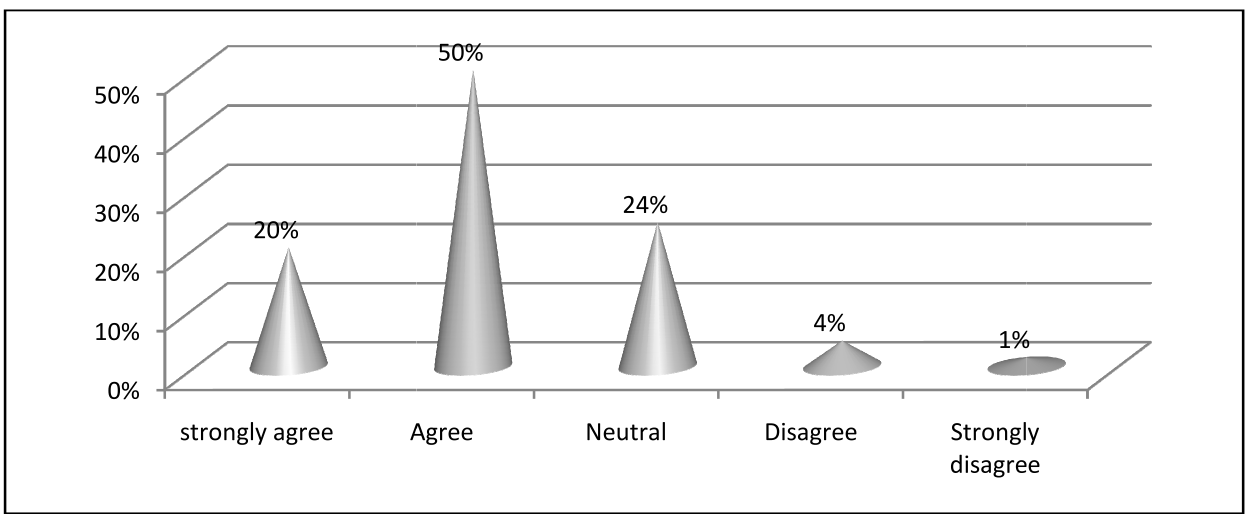

Figure 19: Operation Cost Influence on outsourcing decisions

From the data findings, 20% the respondents strongly agree that operation cost influences outsourcing decisions, 50% the respondents agree that operation cost influences outsourcing decisions, 24% the respondents were Neutral on operation cost influences outsourcing decisions, 4% the respondents Disagreed that the operation cost influences outsourcing decisions, while as 1% the respondents Strongly disagree that the operation cost influences outsourcing decisions.

The findings collaborate with the findings of Gray et al. (2009) who found thatthat low cost priority leads to higher likelihood of outsourcing with quality priority not always systematically impacting strongly on the propensity to outsource. Outsourcing decisions are therefore made on the basis of an in-depth understanding of the organization's core competencies, and are intended to build or enhance the organization's competitive advantages thus outsourcing becomes strategy aimed at lowering cost of production and at the same time not compromising quality. By eliminating a sizable in-house function, operational costs should decline, the need to constantly add new technology or equipment to keep up with capacity and the technology curve places a hidden cost pressure on customer communication functions. Based on the above, outsourcing can then lower capital outlay for technology and equipment, thereby driving down costs, reducing risk and freeing resources for other uses.

4.7. Regression Analysis

The researcher conducted a multiple regression analysis so as to determine on the factors influencing the outsourcing practices in Kenya Airways. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.897	0.806	0.233	0.2764

Table 4: Model summary

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Strategic Outsourcing) that is explained by all the three independent variables (Strategic Plan, Operation Cost, and Quality Improvement).

The three independent variables that were studied, explain only 80.6% of the factors influencing the outsourcing practices as represented by the R^2. This therefore means that other factors not studied in this research contribute 19.4% of the factors influencing the outsourcing practices. Therefore, further research should be conducted to investigate the other factor (19.4%) that influences the outsourcing practices.

4.8. Anova

a. Predictors: (Constant), Strategic Plan, Operation Cost, and Quality Improvement

b. Strategic Outsourcing

The significance value is .0000 which is less than 0.05 thus the model is statistically significant in predicting Strategic Plan, Operation Cost and Quality Improvement. The F critical at 5% level of significance was 7.9. Since F calculated is greater than the F critical (value = 53.1233), this shows that the overall model was significant.

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1.342	5	.254	53.1233	.0000
	Residual	99.970	29	1.244		
	Total	109.685	34			

Table 5: ANOVA (Analysis of Variance)

4.9. Coefficient of Determination

a. Predictors: (Constant), Strategic Plan, Operation Cost, and Quality Improvement

b. Strategic Outsourcing

The researcher conducted a multiple regression analysis so as to determine the relationship between Y and the three variables. As per the SPSS generated Table 4, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon}$) becomes:

$Y= 2.976 + 0.877X_1+ 0.588X_2+ 0.705X_3+ \boldsymbol{\varepsilon}$

Where Y is the dependent variable Strategic Outsourcing), X_1 is the Strategic Plan, X_2 is Operation Cost, and X_3 is Quality Improvement variable.

According to the regression equation established, taking all factors into account (Strategic Plan, Operation Cost, and Quality Improvement) constant at zero, Strategic Outsourcing will be 2.976 .The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Strategic Plan influences will lead to a 0.877 increase in Strategic Outsourcing; a unit increase in Operation Cost variable will lead to a 0.588 increase in Strategic Outsourcing, and a unit increase in Quality Improvement variable will lead to a 0.705increase in Strategic Outsourcing. This concludes that Strategic Plan contribute more to the Strategic Outsourcingfollowed by Operation Cost.

At 5% level of significance and 95% level of confidence, Strategic Plan had a 0.000 level of significance; Operation Cost influences showed a 0.005 level of significant, and Quality Improvement showed a 0.002 level of significant; hence the most significant factor is Strategic Plan.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.976	1.384		0.978	0.003
	Strategic Plan	0.877	0.159	0.897	0.997	0.000
	Operation Cost	0.588	0.085	0.455	0.707	0.005
	Quality Improvement	0.705	0.145	0.326	0.769	0.002

Table 6: Coefficient of determination

5. Discussion, Conclusion and Recommendation

5.1. Introduction
This study sought to examine the factors influencing the outsourcing practices in Kenya Airways. The findings, discussions, conclusion and recommendations are presented below.

5.2. Summary of Findings
The study established that the majority (56%) of the respondents strongly agreed that the Company has long term strategic plans, 36% of the respondents indicated that the Company outsources some its activities often while6% of the respondents indicated that the company Never outsources some its activities, 29% of the respondents indicated that the outsourcing decision based on the company strategic plans as a High priority,13% the respondents strongly agree that the company policy is an indicator of how the strategic plans are performing while as 8% the respondents strongly disagree that the company policy is an indicator of how the strategic plans are performing.

The study finding revealed that majority of the responses 49% were of the opinion that it is likely that the quality maintenance and improvement cut across all the departments, while as 3% of the responses were of the opinion that it is extremely unlikely that the quality maintenance and improvement cut across all the departments. Majority (59%) of the respondents indicated that the quality maintenance is often a continuous Process**.** 73% the respondents strongly agree that the quality improvement and maintenance is a major competitive edge in service industry. Asked whether the quality improvement decisions influence outsourcing decisions in Kenya Airways, the study finding revealed that majority (83%) of the responses agreed while 17% did not agree.96% the respondents strongly agree that a good service delivery is an indicator of strong quality maintenance/improvement, on whether the whether the Company has strategies of maintaining low Operation cost, the study finding revealed that majority (59%) of the responses agreed while 41% did not agree.

From the data findings, majority (49%)the respondents agree that the operation cost decision made by top management in collaboration with all stakeholders, while as 3% the respondents strongly disagree that the operation cost decision made by top management in collaboration with all stakeholders. 47% were of the opinion that the operation cost is extremely likely to influences Outsourcing decisions,31% the respondents agree that the Cost of service is an indicator of how operation cost planning in efficient.50% the respondents agree that operation cost influences outsourcing decisions, while as 1% the respondents Strongly disagree that the operation cost influences outsourcing decisions.

5.3. Conclusion
The study concludes that Kenya Airways is affected by the strategic planning. Its strategic planning that differentiates core and non-core activities in Kenya Airways thus strategic plan have a direct Impact on strategic outsourcing. Airlines need to focus on their core activities to build excellence. Supportive activities that are not supported by in-house capabilities should be outsourced as the provider is in a better position to deliver his services of specialty.

The study further concludes that delivering high-quality service to passengers is essential for airline survival, so airlines need to understand what passengers expect from their services as this is the most crucial step in defining and delivering high-quality service. In order to satisfy customers, Airlines engage in both internal and external activities aimed at achieving consumer sovereignty such as in sourcing and outsourcing.

The study finally concludes that from the findings that cost of operation influences organization performance. This is because it was indicated that outsourcing leads to low supply costs, the urge to achieve savings leads to outsourcing, there is saving of indirect costs through outsourcing, there is better cost control in an organization and outsourcing shifts fixed costs to variable costs.

5.4. Recommendations
The study recommends that Organizations should outsource their noncore business to outside providers that can bring a cut in cost of operation to a great extent. Organizations should establish a partnership with the service providers to establish tools to measure the performance where organizational requirements should be matched with the implementation process through identifying new skills, abilities and knowledge for each project, thus, encourage organizations to obtain front-edge outsourcing.

This study further recommends that the quality of service should be enhanced through considering many choices for service outsourcing as well as their providers; this puts organization on attention to strategically assess their partners. Organizations should

not only consider cost reduction and base on low prices and big players to fill their requirements, but should also emphasize the type of relationship and the trend of behavior between the outsourcing organization and the service providers.
This study finally recommends that for organizations to enhance business agility operation, they should measure outsourcing effectiveness as regards to performance, they should put in place a standard format of measuring performance such as performance evaluation, performance ratios and performance appraisal such that the success from outsourcing management point of view is the same as what clients deem to be success.

6. Acknowledgement
I am more grateful to God for giving me the willingness and strength to work out this great task so far that mean so much to my career life. I extend my gratitude to the staff and lecturers at the JKUAT Mombasa Campus for their ongoing support for the period covered so far. I would like to thank my supervisor Madam Lucy Gichinga for the valuable guidance, suggestions and encouragement during the course of this Research proposal.

7. Definition of Terms

- Sourcing: Sourcing has been defined as a process of identifying, selecting and developing suppliers, it can either be tactical and operational or strategic levels (Lysons & Farrington, 2006).
  Outsourcing: Outsourcing has been defined as the contracting out of a business process to a third-party (Aksoy et al, 2014). It is said that the term "outsourcing" became popular in the United States near the turn of the 21st century. Outsourcing sometimes involves transferring employees and assets from one firm to another, but not always.
- Strategy: A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem. It's the art and science of planning and marshaling resources for their most efficient and effective use(John& Grant,2013).
- Strategic Outsourcing: Strategic outsourcing is the process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel,it's often done to allow a business to arrange the use of its assets to best advantage, and allow the company to move closer to the achievement of its goals(Prakash,2015).

8. List of Abbreviations

- CEO- Chief Executive Officer.
- COYA- Company of the Year Award.
- BPO-Business Process Outsourcing.
- WTO- World Trade Organization
- ICT-Information Communication Technology
- IT-Information Technology.
- H- Human Resource
- EAA-East African Airways.
- KQ-Kenya Airways
- MRO- Maintenance, Repair and Overhaul facilities
- OD-Organization Development
- SOP-Strategic Outsourcing Plan.

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APPENDICES
APPENDIX I: INTRODUCTION LETTER

SARAH SOITA,
JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY,
DEPARTMENT OF BUSINESS ADMINISTRATION,
PO BOX
MOMBASA.
30th May 2015.

To……………………………
………………………………
………………………………

Re: A Questionnaire on Factors Influencing Strategic Outsourcing Practice in Kenya Airways.

I am a masters student in the department of Business Administration at Jomo Kenyatta University of Agriculture and Technology. I am carrying out a study on the factors influencing strategic outsourcing practice in Kenya airways.

The purpose of the research is to gather information that will be important on factors influencing Strategic Outsourcing in Kenya Airways. I will be grateful if you answer the questions in the questionnaire and also share your experiences with me. Your responses will be kept in confidence.

Kindly complete all sections of the questionnaire. Please do not indicate your name on the questionnaire.

Thank you.

Yours faithfully,
Sarah Soita.

APPENDIX II: RESEARCH QUESTIONNAIRE

QUESTIONNAIRE

- Instructions: Please respond to the following questions and where applicable, mark the relevant box with a tick (√).
- Confidentiality: The responses you provide will be strictly confidential. No reference will be made to any individual(s) in the report of the study.

➢ PART A: BACKGROUND INFORMATION

A1 – Respondents Profile
1. What is your gender?
[ ] Male [ ] Female

2. Which is your age bracket?
[ ] Below 20 years [] 21-30 years [ ] 31-40 years [ ] 41-50 years
[ ] Above 50 years

3. What is your education level (state the highest level?)
[ ] Certificate [ ] Diploma [ ] Undergraduate
[ ] Post Graduate [ ] Other ______________________

4. How many years have you worked with the company?
[ ] Less than 1 year [ ] 1-3 years [ ] 4-7 years
[ ] 8-11 years [] Over 11 years

- Part B: Examining the Factors Influencing the Outsourcing Practices in Kenya Airways.

A. To Determine the Extent to Which Strategic Plan Influence Strategic Outsourcing in Kenya Airways.

3. Does the company outsource some its activities?
[1] very often [2] Often [3] occasionally[4] Rarely [5] Never

4. If yes on above, is the outsourcing decision based on the company strategic plans?
[1] Essentially [2] High priority [3] Medium priority [4] Low priority [5] Not a priority

5. Use 5 scale rating whereby: 1= Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Statements	1	2	3	4	5
Does the Company have long term strategic plans?					
Are the Company goals set by the relevant level of Management?					
Company policy is an indicator of how the strategic plans are performing; please indicate your level of agreement.					

B. To Establish the Extent to Which Quality Improvement Influences Outsourcing in Kenya Airways.

6. Does the Company have quality control department?
[1] Yes [2] No

7. If yes, is the quality maintenance a continuous Process?
[1] Always [2] Often [3] Sometimes [4] Rarely [5] Never

8. Does the quality maintenance and improvement cut across all the departments?
[1] Extremely likely [2] Unlikely [3] Neutral [4] Unlikely [5] Extremely unlikely

10. Does quality improvement decisions influence outsourcing decisions in Kenya Airways?
[1] Yes [2] No

Use 5 scale rating whereby: 1= Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Statements	1	2	3	4	5
Quality improvement and maintenance is a major competitive edge in service industry, please indicate you level of agreement or disagreement.					
A good service delivery is an indicator of strong quality maintenance/improvement, please indicate your level of agreement or disagreement					

C. To Determine the Effect of Operation Cost on Strategic Outsourcing in Kenya Airways.

12. Does the company have strategies of maintaining low operation cost?
[1] yes [2] no

14. Do you think operation cost influences outsourcing decisions?
[1] Extremely likely [2] Unlikely [3] Neutral [4] Unlikely [5] Extremely unlikely

15. Use 5 scale rating whereby: 1= Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Statements	1	2	3	4	5
Is Operation cost decision made by top management in collaboration with all stake holders, i.e. middle management and staff?					
Cost of service is an indicator of how operation cost planning in efficient, do you agree with this?					
In your own opinion, do you think operation cost influences outsourcing decisions					

18. Please give your suggestions/recommendations on factors influencing outsourcing practices in Kenya Airways.

____

____

Thank You for Your Time and Cooperation

APPENDIX III: BUDGET

Number	Activity	Amount Kshs
1	Travel expenses in collecting Data	5,000
2	Purchase of Biros	1,000
3	Purchase of Books	5,000
4	Purchase of printing papers	10,000
5	Printing of 20 copies	20,000
6	Cost of Disbursing Questionnaires	2,000
7	Cost of SPSS installation	3,000
8	Analysis of Data results	5,000
9	Printing of copies of the reports	10,000
10	Sum of binding 20 copies at all Stages	8,000
11	Transport to disburse questionnaires and collecting them	1,500
12	Miscellaneous	7,000
	Totals	**77,500**

APPENDIX IV: RESEARCH PROJECT TIME PLAN

RESEARCH PROJECT TIME PLAN
Table: Work Plan 2015

ACTIVITY	Jan	Feb	March	April	May	June	July	August	Sep	Oct
Developing Proposal/ Literature Review										
Proposal Submission and Defense.										
Pilot Study										
Data Collection										
Data Analysis										
Final Project Submission										