

Influence of Competitive Bidding on Implementation of Outsourcing Strategy

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Abstract: The purpose of the study was meant to analyze the factors influencing the implementation of outsourcing strategy in an organization. The general objective of this study was to establish the determinants of implementation of outsourcing strategy in public entities in Kenyan public sector: a case of Garissa Level Five Hospital. The specific objectives of the study were to evaluate the influence of competitive bidding on implementation of outsourcing strategy; examine the influence of procurement planning on implementation of outsourcing strategy; access the influence of lead time on implementation of outsourcing strategy and evaluate the influence of procurement procedures on implementation of outsourcing strategy. A census method was adopted where all the 40 staff involved in procurement department were issued with questionnaires. Data collection was analyzed using both descriptive and inferential statistical tools an SPSS version 22.0 was used to process the collected data which was then to be presented in form of tables. Correlation analysis was used to describe the strength of the linear relationship between the two variables. The findings of the study revealed that the research variables; competitive bidding, procurement planning, lead time and procurement procedures plays a significant influence on implementation of outsourcing strategy in Public entities. The study recommends that, organizations should adopt outsourcing as a strategic initiative to enhance competitiveness, performance and responsiveness of the various processes. The management should provide the required through monitoring and control of the quality of service delivery to realize the designed benefits of cost reduction, improved efficiency and customer satisfaction by effectively managing the contracted party. It is also recommends that management outsources process that exhibit high manpower costs and demonstrate inefficiency in the various levels of the value chain. These shall deliver cost leadership through effective contract management. It also recommends that outsourcing should not only be subjected to the traditionally non- core activities, but the whole of those activities that a third party can deliver at lower costs than can be done in house, with adequate management control on quality of delivery considering best selection method, good procurement planning, shortening the lead time and ensuring it follow the right procurement procedures put in place in order to achieve cost reduction and customer satisfaction.

Keywords: Outsourcing, Strategy, Competitive Bidding, Implementation.

1. INTRODUCTION

Today, companies are forced to outsource commodities and focus on their core competency and creative ways to reduce cost and increase customer satisfaction. Thus buying organizations use competitive bidding process to find supplier for the selected commodities to outsource, whereas they will send out Request for Quotation (RFQs) to get bids from suppliers for the business. To get the lowest cost possible, typically buying organizations will use several rounds of competitive bidding process. To increase cost savings over the long term, companies should focus on competitive bidding to determine pricing, followed by collaborative engagement with supply partners (Curkovic, 2016).

Competitive bidding should be used to gain the benefits of greater performance at lower costs and it should be based on the best value. Through competition the organization does not get stuck with monopoly supplier who subsequently reduces performance/ raises prices. All work done by third party supplier should be bid on a competitive basis by to assure best price, minimize collusion and eliminate shady activities. Competitive bidding will continue to be used to

ascertain market prices and award business. Many companies will take bids for non- strategic items. However, many of those items will have been outsourced, so third –party buyer or consortiums will conduct the bidding. Governments will continue to use bidding for much of their purchasing. Purchasing will continue to negotiate with suppliers, independent of labor and customer negotiations. Negotiation will become more intensive due to greater prices and cost visibility (Carter, 2000).

Procurement planning which encompasses the outsourcing decision should be every bit rigorous as project planning. Once you have made a decision to go outside the organization a procurement plan should be created. Involves determining which project needs can be best met by procuring of the services/product outside the organization. It involves considerations of how to procure, what to procure, how much to procure and when to procure. Procurement planning involves investigation of possible options and requires a make or buy analysis to determine whether there are any reasons why using may be undesirable. For example decision at the strategic level and tactical level non- competencies should be outsourced because reduce the project cost, shortens its duration and reduces risks and provide higher quality. Tactical level outsourcing elevates resources shortages helping in closing knowledge gaps and increase customer satisfaction.

Suppliers and customer markets become more and more global and make companies consider restructuring their supply chains to take advantage of opportunities in terms of costs, competence, etc. at different locations. Organization management should consider outsourcing as it reduces lead time and make them flexible in meeting varied needs of the customers thus enhancing customer satisfaction.

Statement of the Problem:

Rivard, (2005) firms must reduce costs and ensure customer satisfaction, for which outsourcing is viable option because of benefits like cost reduction, improved quality of service, quick responsiveness and customer retention. Outsourcing strategy contributes significantly to national productivity growth through the removal of non- value added activities in procurement process. However, the adoption of this strategy has been slow in the Kenyan public service providers like Garissa Level Five Hospital and adequate studies assessing the impact of sourcing have not been done. While some authors have note the practical difficulties in getting outsourcing strategy into proper operational, there is virtually limited discussion of implementation and management of outsourcing strategy of services in the public hospitals in Kenya or of the consequences of these models for the hospitals, suppliers, and the public or for these whose responsibility it is to implement and manage an outsourcing system. In fact it appears to be little consideration of the management or organizational issues associated with outsourcing strategy.

As a result, hospitals and healthcare need to reduce costs and add value while maintaining quality patient care. One of the strategic tools that healthcare and hospitals should use to meet this is through outsourcing (Ndele, 2005). And to ensure this is successfully implemented they have to consider factors such as competitive bidding, procurement planning, lead times, procurement procedures in order to achieve customer satisfaction and reduce cost, (Rivard, 2015). It has steadily outsourced some of its activities such as information technology 29% and supportive 19% (Shinkman, 2000). Studies in Kenya have focused on such issues as: Nyangau (2014) carried out a research on effects of outsourcing strategy on procurement performance among universities in Kenya. The study found out that contracting, comprehensive outsourcing, licensing agreement and selective outsourcing strategies were main determinants. Orero (2015) did a study of factors influencing outsourcing of technical and specialized goods, works, and services in public secondary school in Kenya. He considered factors such as procurement laws, regulation and procedures, social- cultural factors and environmental laws. Robert (2013) carried out research on impact of outsourcing in supermarkets in Kenya. He established that outsourcing assisted in shortening lead time, focusing resources on core activity, spreading risk and services quality. Mukiri (2014) carried out a study on factors influencing outsourcing of services in selected state corporations in Kenya. He considered factors such as competition for professional services, management policies, government rules and regulations, procurement process and policies. Muller (2015) carried out a research on effects of contracting on outsourcing decisions in public sectors in Kenya. He considered factors such as government policies and pricing. Namusonge (2015) carried out a study on determinants of outsourcing as competitive strategy in supply chain management of manufacturing companies in Kenya. He considered cost efficiency, quality of products, improved responsiveness and service delivery. Namusonge (2015) carried out a study on factors affecting performance of the procurement function in Kenya. He considered factors such as competitive bidding, aggregation of procurement and legal framework.

Wambua (2017) carried out a study on influence of outsourcing third party logistics on the performance of food and beverages manufacturing companies in Kenya. He considers factors such as cost, lead times, services quality and risk

assessment. Mburu (2017) carried out a study on determinants of customer service outsourcing decisions among organizations in Kenya. He considers factors such as cost, customer satisfaction, vendor capacity and competitive strategies. Yan Kelovil (2003) indicated that 2/3 (two thirds) of companies Worldwide already outsource at least one business process to a third party. He notes that outsourcing is now a fact of life in most industries around the world. Outsourcing has been widely implemented by various parastatals as well as government ministries in the recent past. The trend has been outsourcing of non-core functions such as cleaning and provision of security services. It should be appreciated that various researchers have undertaken various studies although none of them have examined on the factors influencing implementation of outsourcing strategy on Health sector, such as Garissa Level Five Hospital, hence the need to explore on factors influencing the implementation of outsourcing strategy in order to impact value and cost. Therefore this study seeks to examine the factors influencing the implementation of outsourcing strategy in Garissa Level Five Hospital.

Objective of the Study:

- a) To establish the influence of competitive bidding on implementation of outsourcing strategy.
- b) Transaction Cost Theory
- c) This theory states that organizations are economic actors using the most efficient mechanisms for transactions (Williamson, 1981). This theory posits that there are costs in using a market. These costs include operational cost such as search cost and inventory holding cost as well as the cost of writing and enforcing a contract (Heshmati, 2003). By making their own inputs firms gain economies of scale and avoids transaction costs. The increased size of the firm will however require increased internal co-ordination (Grover et al, 1996).
- d) According to TCE, the basis of an outsourcing decision is the ability of a company to use the economy of scale in practicing outsourcing (Snieska & Vasiliauskiene, 2008). If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale (Grover et al, 1996). Lashgari et al. (2013), TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for the forthcoming outsourcing arrangements. It would however the advantage of the economies of scale and scope of the vendor while at the same time reducing internal coordination costs.
- e) However the firm that outsources will increase its external co-ordination costs. External coordination costs will increase or decrease depending on the level of asset specificity. High asset specificity arises where a firm's products and services are customized and not easily transferable to alternative vendors (Williamson, 1985). Where the firm's products and services are very unique, the vendor may not be able to develop sufficient economies of scale and costs would be very high. In such a situation it may be more prudent to develop the competencies in house. In contrast more standardized products and services could reflect lower external co-ordination costs and the vendor may achieve economies of scale and would therefore be a more viable option for outsourcing.

2. RESEARCH METHODOLOGY

Research Design:

A research design constitutes the blue print for the collection, measurement, and analysis of data. Cooper and Schindler (2008) define research design as the plan and structure of investigation conceived so as to obtain answers to research questions. According to Kothari (2004), research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. Descriptive research, according to Best and Khan (2010), is non-experimental in that it deals with relationships between non-manipulated variables in a natural rather than artificial setting. It is designed to obtain pertinent and precise information concerning the current phenomena and where possible to draw valid general conclusions from the facts discovered, (Lockesh, 2009). Since the events or conditions have already occurred or exist, relevant variables are merely selected for an analysis of their relationships, (Khan, 2008)

Target Population:

Mugenda and Mugenda (2009), described population as an entire group of individuals, events or objects having a common observable characteristics. In other words population is the aggregate of all that conforms to a given specification. Normally the researchers should get more about the target population are demographics like age, gender and so on. The target population was included forty (40) respondents involved in the procurement in KNH. The study selected three categories that resulted in dividing the target population into three categories, these categories were classified as Procurement, Logistics and warehousing and finance.

Data collection Instruments:

In-depth interviews and semi-structured questionnaires were used to gather primary data during the study. On the other hand, online journals, company record, related books and reports were used to gather secondary data. Since the study was conducted in a non-professional environment, the researcher personally interviewed the respondents and filled in the responses in the questionnaire. Since the study acknowledged the use of both quantitative and qualitative study design, it was possible to include closed and open questions in the questionnaires. The questions covered data and information relating to benefits of public participation based on the criteria of achieving four social goals of; increasing the substantive quality of decisions within the County; resolving conflict among competing interests; building trust in institutions and educating and informing the public.

Data Collection Procedure:

After the research proposal was approved, the researcher commenced data collection. Approval of the proposal allowed the researcher carry out the study in the selected area. The first step towards data collection was to prepare and gather all data collection tools such as questionnaires and recording materials. This would be followed by a pre-visit to Makueni country prior to the actual study to conduct a pilot study. Conducting a pilot study allowed the researcher to familiarize with the target population and location of the study. The main purpose of this visit was to pre-test the data collection tools before conducting the actual study. During the pilot study, the researcher confirmed the willingness of the respondents to participate in the research. In addition, the researcher checked the level of precision of the questions based on how the respondents interpret them. The results from the pilot study were positive. As such, the researcher commenced actual data collection as intended. The researcher began by explaining the purpose of the intended research and pledged assured the respondents that their identities would be concealed. The researcher, thereafter, progressed to ask the questions while filling in the responses on the questionnaires.

Pilot testing:

A pilot study was used to test the feasibility of the study and also check the adequacy of the research instruments. The pilot study checked on any unforeseen problems respondents may encounter while interacting with research instruments and improvement of the instruments. It assisted in ascertaining the accuracy and consistency of the research instruments before embarking on the actual data collection. During the pilot study, the researcher selected 14 respondents; two County government employee and twelve public members within the county. This represents 10% of the sample size. The purpose of pre-testing the questionnaire was to test wording, sequencing, questionnaire layout, and fieldwork arrangement.

Reliability of Research Instruments:

Reliability measures the extent of the internal consistency of the questionnaire. The Cronbach’s Alpha will be used to measure the internal consistency of the research questionnaire. Cronbach’s alpha reliability coefficient normally ranges between 0 and 1 with higher values indicating higher reliability among the indicators (Hair *et al.*, 2007). The closer Cronbach’s alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. The minimum value recommended for the Cronbach’s coefficient is 0.7. The researcher used SPSS to compute the cronbach’s alpha. for this study, the value of the Cronbach’s alpha was 0.838 implying that there is high internal consistency in the scale. Table 3.1 shows the value of the Cronbach’s scale for the scale.

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.838	.830	23

Reliability of Questionnaire

Validity of Research Instruments:

Validity is the degree to which a measure accurately represents what it is supposed to (Hair *et al.*, 2007). Validity determines the extent to which a scale measures a variable of interest. Since all the constructs are comprehensively addressed through the review of the relevant literature, I presume the questions are valid and capture the aspirations of the study.

Data analysis:

Kothari (2004) asserts that, the data, after collection, has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. This is essential for a scientific study and for ensuring that we have all relevant data for making contemplated comparisons and analysis. The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups. The mass of data collected will be coded, summarized into frequency tables, and analyzed using both qualitative and quantitative techniques. The qualitative technique was used to conduct content analysis especially from the qualitative data collected from the questionnaires.

Data Presentation:

Data was presented using frequency distribution tables, graphs, and pie charts.

3. RESEARCH FINDINGS AND DISCUSSION

Competitive bidding:

Competitive bidding is where procurement of particular good or service is subjected to many bidders who are measured against some set performance standards. Every bidder has equal chance of being selected. The research revealed that competitive bidding influences implementation of outsourcing strategy whereby it calls for bidders to offer competitive prices as well as quality in order to win the tenders. There was indication that 47.5% agreed that the organization subjects bidders to ensure they determine the lowest prices because competitive bidding reduced the cost of goods/ services due to the fact that if a supplier increases cost of his goods/services, someone else is ready to supply the same goods/services at lower price, therefore prices offered were reasonable. 42.5% of the respondent strongly agreed that they can also obtain best supplier. 50% of the respondents agreed that it is practiced in the organization and this is probably because they would rather use other was of procuring to serve their own interests. 55% and 52.5% of the respondents agreed that it was time consuming and expensive because of the nature of tender documents. This is also forced them to explore other options other than competitive bidding thus reducing cost and meeting consumer satisfaction.

4. CONCLUSION

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

Procurement planning also influenced the implementation of outsourcing strategy because it's through planning your able to know what to outsource, how much to incur and when to outsource avoiding unnecessary wastage thus reducing cost. Lead time influence the implementation of outsourcing strategy because through reducing the lead time when outsourcing ensures specific customer requirements are met achieving customer satisfaction and lastly procurement procedures influenced implementation of outsourcing strategy because the policies should be flexible as outsourcing involves professionals and in practice the laws should be clear, consistent, comprehensive and flexible thus reducing cost.

5. RECOMMENDATIONS

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

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

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