

# Effect of Operational Risks Reduction on Service Delivery at Kenya Power Company Limited, Kapseret, Sub-County, Uasin Gishu County, Kenya

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## Effect of Operational Risks Reduction on Service Delivery at Kenya Power Company Limited, Kapseret Sub-County, Uasin Gishu County, Kenya

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*the effects of operational risks reduction on service delivery at Kenya Power Company limited, Kapseret Sub-County, Uasin Gishu County, Kenya. The study adopted Transaction Cost (TC) Theory. Descriptive survey research design was used. A total population of 1812 and sample size of 317 were used. The study also employed stratified random sampling method done according to the Kenya Power Company limited structure and used the questionnaire and interview as the main research instrument which was tested for validity and reliability after pilot study. The data analyzed using Statistical Package for Social Science (SPSS) version 24. Quantitative data was analyzed by use of inferential statistics such as Pearson correlation coefficient and linear regressions. These obtained data was presented in form of tables. There was a positive significant relationship between operational risks reduction of projects ( $\beta_1=0.528$ ) and service delivery at Kenya Power Company limited. Management of Kenya Power Company limited should ensure there is existence of a competent outsourcing team. They should also sensitize its employees on the core and non-core activities of Kenya Power Company limited, the activities outsourced and reasons for outsourcing. For effective implementation of outsourcing there should be an overall clear understanding of what it entails and requires for great performance.*

### Abstract

*With the current Kenyan government goal of power connectivity to its citizens through Kenya power company limited, there has been an increase in illegal lines, operational accidents, long connectivity time, leakage of company information, and rise in number of complaints from the customers since the adoption of outsourcing. This study sought to establish*

### Introduction

In the modern public sector, the pursuit of service delivery is considered to be an essential strategy. Service delivery regularly requires combination of media transmission and data innovation capacities and the arrangement of service that are unmatched in the business (Davis, 2014). Outsourcing enables firms to focus on actions that embody its core

competences, allowing them create a competitive advantage with cost reduction (Chase *et al*, 2007). Some of the reasons given for outsourcing according to Pearce and Robinson (2009) are; cost reduction, high quality of work from the service provider and increased business opportunity for the service providers. Thus outsourcing was introduced to help firms practice economy of scale, but on the contrary it

has affected economy's growth of nations with increased unemployment which is a challenge to this practice.

Globally, public services delivery is vital and there are large deliveries across the world. One of the strategies often adopted by firms globally is outsourcing of some of the internal activities to outside providers. Complications arise when an activity which top management of the firm considers noncore is viewed by employees as core. Outsourcing such activity is likely to be viewed negatively by employees and may lead to dissatisfaction. Outsourcing is one of the key operation strategies that started in England in early 18<sup>th</sup> century but has evolved in many industries in 1980s and 1990s, especially with emergent service industries (Cocks, 2002).

Un and Asakawa (2014) studied the impact of outsourcing for product and process innovation on the performance of American firms. Their study found that a carefully planned outsourcing for innovation has a positive impact on the overall performance of a firm in the US. Many firms subscribe to the fact that high level service delivery will lead to greater customer loyalty and future revenue. To achieve service quality, organizations consider a number of strategic issues to influence their operations and to make them remain relevant in the market. Strategic operations implemented by a firm are determined by factors especially in the internal environment which these organizations have control over (Kiptoo & Mwirigi, 2014). In Africa service delivery is a topical issue for most governments and scholars in Africa (Kumar & Best, 2014).

In Kenya power company service delivery available today tends to be optimized in modern technological innovations and expertise. Kenya Power is responsible for service delivery to Kenyans in term of distribution of electricity in Kenya. Statistics from Kenya Power shows that electricity demand has grown at an annual average rate of 5.3 per cent over the past five years and is projected to accelerate to over 10 per cent per year due to the implementation of the Vision 2030 projects (Kiplagat, Wang & Li, 2011). In order to meet the government policy of connecting 200,000 households per annum and the increased energy demand without increasing fixed cost, the company had to outsource some

of its main activities like survey, design and construction of electricity lines.

The construction of lines was done under service level outsourcing agreement: where Kenya Power Company limited (the outsourcer), provides the materials required for line construction while the service provider (contractor) supplies the Line construction to the construction site as one unit. Outsourcing of line construction in Kenya Power Company limited mirrors chase strategy where the service provider is engaged only when there is demand (Chase *et al*, 2007). There are several outsourced services in Kenya Power Company limited as a company hence, this study proposed to focus on outsourcing of construction in Kenya Power Company limited which was unique as the contractor provided both labour (workforce) and transport as a unit. Besides, the company operates as monopoly in transmission, distribution and retailing of electrical energy.

In response to these increased demand, as well as meet its business goals, Kenya Power has undertaken structural reforms in its operations and has put in place different strategies to ensure this demand is met. Outsourcing of some of the company's activities is now being used as a major strategy to meet the growing demand and the connectivity targets. The company has resulted to outsourcing of intensive activities, which include design, way leaves acquisition, construction, and metering (Otiso, Chelangat, & Bonuke, 2012). The service provider is therefore paid for transportation of materials to the site and labour for line construction. The service providers who cater for line construction are normally referred to as L and T contractors within the Kenya Power Company limited circles. The work of Kenya Power Company limited staff under this arrangement is to identify the contractor, issue the work, prepare bills of quantities, inspect the job and ensure it is done to the required standards.

#### **Statement of the Problem**

The Kenya Government Vision 2030 envisaged the country to become middle income economy by 2030 and energy subsector is one of the key enablers of this vision (Ministry of Energy, 2012). Noteworthy, Energy and economic growth are interrelated (Stern, 2003). Kenya

Power Company limited is directly involved in realization of this vision as it is currently mandated to distribute and retail electrical energy in Kenya. One of the operation strategies adopted by Kenya Power Company limited was the outsourcing of line construction. Kenya Power Company limited took this decision in order to increase capacity and improve work quality. These intentions may not be achieved if both parties in the contract are not prepared to work together.

The operations of the company since they began outsourcing shows an increase in number of illegal lines using materials meant to benefit the actual customer. Malachy (2010) rise in number of operational accidents among the contractors and Kenya power company limited staff who are victims of the contractor's unapproved activities. An insight into these projects shows that most of them have exceeded their time frame of completion, inspection and approval (Serem, 2003). Such delays affect delivery of the service (power) to the intended customer and the customers' perception is that the company caused the delay yet in real sense it is not. Such risks of bypass, energy loss and extra costs are transferred to the organization.

The Kenya Power Company limited stakeholders and customers have also not been left behind and have increasingly continued to demand better services in relation to power supply. The government and regulatory body have gone ahead and requested the company to come up with a customer service charter stipulating service delivery standards. This means the environment under which the company is operating in, is rapidly changing and hence for Kenya Power Company limited to survive and remain competitive in the market it needs to apply business process outsourcing strategy. In an attempt to decentralize service delivery, Kenya Power Company limited has recently restructured its business and created smaller sub units called business units. The company has also adopted Business process outsourcing as one of the key strategies in order to enhance achievement of the company objectives. The outsourcing strategies are meant to improve company performance, reduce operational costs, and improve company responsiveness to

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changing business environment and help the company achieve the yearly performance target of creating 200,000 new customers. It is against this background that the study looked into the effect of outsourcing on service delivery at Kenya Power Company, Kapsaret Sub-County, Uasin Gishu County, Kenya.

### **Literature Review**

The service provider need to understand the firm strategic perspective in terms of vision and future core competencies and make sure he align his service with the firm objectives and culture. There are chances of an increase in operation risks as organizations continue placing more of their infrastructure supporting the achievement of their strategic objectives to service providers. There should also be a continuous follow-up and monitoring of the service provider relationship as well as resolving disputes (Weele, 2010).

Due to the fact that parties in an outsourcing contract in a long term relation to be considered. Some of the aspects are taken care of in the contract writing. According to Weele, (2010), the risks associated with outsourcing contracts can be summed up as either, technical risks, commercial risks, contractual risks or performance risks. The Kenya Power Company limited is one of the business areas where high level of risk is involved during contractors' fulfillment of their contractual obligations (Nguyen, 2013).

In order to reduce political pressures and scrutiny, many public organizations would choose to outsource their functions. These way organizations are perceived as being more efficient and are able to provide better services. With time, a contracted service provider may become complacent or even sell the company to a third party.

Makowenga, (2013) mentioned that the high prices imposed on suppliers due to increasing outsourcing costs, the demand for this suppliers has risen and as such pushed the rates high. This movement results to an increase in the costs charged by contracted companies thus not helping the outsourcing firm cut costs. There is also too the tendency of the company employees to be reluctant as they perceive the contractors are specialists who have all the skills needed in service provision, this may not be the case and such issues ought not be ignored. Outsourcing

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with suspicion and tend to resist it. It also creates low morale among employees. In some cases, outsourcing can breed corruption practices in an organization. This can take the form of bribes in order to get favors, or inside staff having direct interests in the outsourcing organizations.

The Kenya Power Company has all a long been carrying engineering design, construction, network maintenance and operations using her own internal resources. This has been causing delays, slow implementation and serious customer complaints. The company's core activity is service provision of electricity through the distribution of electrical networks. Given that construction is a core activity in distribution of electrical energy and it is possible for both management and union in Kenya Power Company limited to be reluctant in outsourcing such an activity. Nonetheless, Kenya National Bureau of Statistics (2008) projects that the energy demand will grow at a rate of 8% and above per annum for the next five years.

In today's competitive and dynamic business environment, project goals of time, cost and time seem to be losing touch with customer needs. The government has championed the connectivity of its citizens to the grid and has funded among others the last mile and GPOBA projects through Kenya Power Company limited. The Kenya Power Company limited has been struggling with the new billing system and collection of postpaid electricity consumption. The process is labor intensive and has led to poor service delivery to option-less customers who have been receiving exaggerated bills, long response time, long connection time and have now resorted to social media to air their frustrations (Manzi, 2004). With these challenges and the ever growing political pressure and the need to improve on its service delivery, the company in the recent past opted to outsource some of its services of design, way leave acquisition, construction, metering, labour and Transport (KPLC 2012).

The service quality factors that ensured customer satisfaction in any organization is service quality, friendliness of the Centre's officials, and the prompt resolution of customers' issues, among others Chepkorir (2012). Customers might be dissatisfied with poor service quality such as failure of electricity and electricity blackouts,

which delayed the services delivery in many organizations in Kenya. Other factors included a lack of clarity with respect to procedures and the appropriate installation of electricity powers. Though outsourcing may come with different types of risks, they are all related to operation performance. Abdalla, Kiragu, Waswa, Ono, Kariuki and Ikuu (2015) indicated that service delivery should be transparency reliable in order to satisfy the customer's satisfaction in government service delivery. Some of the recent studied done on Kenya Power Company limited; Wahogo (2006) studied response of Kenya Power Company limited to changes in environment. Ciano (2007) studied strategy and structure at Kenya Power Company limited. There are few studies carried out on effect of business process outsourcing on service delivery at Kenya Power Company limited.

#### **Theoretical framework**

The study adopted transaction cost theory. This theory expects that transactions are controlled by creation financial aspects. Associations are financial on-screen characters utilizing the most productive system for transactions (Williamson, 1981). The transaction cost approach offers an explanatory structure in looking at outsourcing administrations and in house administrations (Lacity and Hirschheim, 1993). Wang (2002) affirms that transaction cost theory help with foreseeing outsourcing accomplishment as far as financial advantages. Cheon, Grover and Teng, (1995) additionally contend that advantage specificity, uncommonness of contracting, and natural and relationship vulnerability are the determinants of the size of transaction cost, which, thusly, gives a premise to the assessment of outsourcing. The transaction cost theory is pertinent to outsourcing of line development as it gives premise to outsourcing basic leadership. The transaction cost theory assumes that organizations attempt to limit the costs of trading assets with the earth, and that organizations endeavor to limit the bureaucratic costs of trades inside the organization (Lindblom, Charles 2009). The theory sees foundations and market as various conceivable types of sorting out and organizing monetary transactions. At the point when outside transaction costs are higher than the organization's inside bureaucratic costs, the

organization will develop, in light of the fact that the organization can play out its exercises all the more efficiently, than if the exercises were performed in the market (Moore, Mark, 2005). Be that as it may, if the bureaucratic costs for organizing the action are higher than the outside transaction costs, the organization will be scaled back.

Pine and Gilmore (2009), each organization will grow as long as the organization's exercises can be performed less expensive inside the organization. As per Lindblom (2009), a transaction cost happens "when a decent or an administration is exchanged over a technologically detachable interface". As per Porter, (1990), the transaction costs identified with the trading of assets with the outside condition could be reflected by ecological vulnerability, advantage, dangers, limited discernment and center organization resources. The variables will conceivably expand the outer transaction costs, where it might turn out to be somewhat costly for an organization to control these components.

## **METHODOLOGY**

This study adopted a descriptive survey research design. The research targeted Kenya power north rift region staffs charged with outsourcing activities and the Kenya power company customers from Kapseret Sub-County. The target population of 15 managers, 30 supervisors, 32 procurement staff, 34 finance staff, 7 large power customers, 570 Kenya power last mile customers and 1124 customers under GPOBA project based in slums. From the above target population a sample size of 317 was obtained using Krejcie & Morgan, 1970 formula for finite population. This study employed stratified random sampling method done according to the Kenya power structure (procurement staff, supervisors, managers and finance staff) and Kenya power customers structure (large power customers, Kenya power last mile customers and customers under GPOBA project). Strata and sample items were selected from each stratum so as to categories the accessible population into strata under their category in Kenya power structure. Simple random sampling technique was used to select procurement managers, supervisors and finance staffs as well as Kenya power customers

in their stratum, because these entire stratum have the same characteristics and the probability of being chosen is equal.

The research used questionnaires and Interview schedule as research instrument for collecting data. The questionnaires were issued to procurement staff, finance staff, Kenya power last mile customers, customers under GPOBA project chosen for the study; their responses was based on the research questions. The interviews were used to collect information from the managers, supervisors and large power customers because of the position in the organization and by extension their role, duty and function, which enabled them to provide the required information on the subject.

The research instruments were tested for validity and the reliability during piloting. Piloting was done by distributing 17 questionnaires to respondents in Soy Sub-County, Uasin Gishu County which is not part of the areas sampled. The expert judgment method was used to determine validity of the instruments and a copy of the questionnaire was given to the supervisor to check if it contained all the questions of the study. The questionnaires were tested for reliability by using Cronbach alpha to determine the internal consistency of the items. According to Katou (2008), research instruments are considered to be reliable when the Cronbach's coefficient alpha was greater than 0.70. The Cronbach's alpha for all the variables was more than 0.70 and implying that the research variables (operational risk reduction, timely completion of projects, cost saving and service delivery) were reliable. After collecting and screening the data from the field, they were coded using numeric values with help of Statistical Package for Social Sciences (SPSS) software. Coded data was analyzed using the same software using descriptive statistics and inferential statistics. The frequency distributions and percentages which are descriptive statistics were used to analyze variables as well as measures of central tendencies such as means and standard deviations. Inferentially the Pearson product moment correlation and multiple regressions were used to establish the relationship between variables and test the hypothesis respectively.

## **RESULTS**

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**Correlation Analysis**

To achieve this Pearson’s correlation was carried out. It was appropriate because all the variables were in interval scale. Table 4.12 showed correlation between the study variables. The study sought to find out the strength of the relationship between operational risks reduction and service delivery at Kenya Power Company

limited. The findings indicated that there is a positive correlation between operational risks reduction and service delivery at Kenya Power Company limited ( $r=0.760$ ,  $p=0.004$ ). Therefore, an increase in operational risks reduction increased the service delivery at Kenya Power Company limited.

**Table 1 Correlation Analysis of the Variables**

		Service delivery
Service delivery	Pearson Correlation	1
	Sig. (2-tailed)	
Operational risks reduction	Pearson Correlation	.760**
	Sig. (2-tailed)	.004

\*\* Correlation is significant at the 0.01 level (2-tailed).

c. List wise N=12.

The findings showed that outsourcing results in operational risks reduction and hence improved profitability was no doubt clear.

**Regression analysis**

The (R squared) of 0.557 showed that 55.7% of service delivery was explained by operational risks reduced. The adjusted R<sup>2</sup> of .535% indicates that reduced operational risks explained the change in service delivery by 53.5% in Table 2.

**Table 2 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.760 <sup>a</sup>	.577	.535	.31518	.577	13.643	1	10	.004

a. Predictors: (Constant), Operational risks

**ANOVA**

The ANOVA results in Table 3 revealed ( $F=13.64$ ,  $p$  value = 0.004). Since  $p < 0.05$  a significant relation existed between reduced operational risks and service delivery in Kenya Power Company limited. Thus rejecting the null hypothesis as predicted that there is no significant relationship between reduced operational risks and service delivery.

**Table 3 ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.355	1	1.355	13.643	.004 <sup>b</sup>
	Residual	.993	10	.099		
	<b>Total</b>	<b>2.349</b>	<b>11</b>			

a. Dependent Variable: Service delivery

b. Predictors: (Constant), Operational risks

**Regression Coefficients**

The study hypothesized that operational risks reduction has no significant effect on service delivery at Kenya Power Company limited.

Operational risks reduction had a significant relation with service delivery at Kenya Power Company limited ( $\beta=0.938$  and  $p$  value=0.004). Therefore, a unit increases in operational risks

reduction led to an increase in service delivery at Kenya Power Company limited by 0.938. Since  $p < 0.05$  (Table 4), null hypothesis rejected. It can

then be concluded that reduced operational risks reduction affects service delivery at Kenya Power Company limited in Uasin Gishu County.

**Table 4 Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	.243	1.092		.223	.828					
Operational risks reduction	.938	.254	.760	3.694	.004	.760	.760	.760	1.000	1.000

a. Dependent Variable: Service delivery.

The regression analysis revealed that operational risks reduction had an influence on service delivery at Kenya Power Company limited in Uasin Gishu County. A unit increase in operational risks reduction, there was a corresponding rise in 0.938 of service delivery at Kenya Power Company limited in Uasin Gishu County. There should also be a continuous follow-up and monitoring of the service provider relationship as well as resolving disputes. The study results also concur with the work of Weele, (2010), that risks associated with outsourcing contracts can be summed up as either, technical risks, commercial risks, contractual risks or performance risks.

### Conclusion

The contractors working with the Kenya Power Company limited Kapseret Sub County, Uasin

Gishu County, Kenya, were assured, reliable, and responsive and had empathy. The operational risks reduced positively influenced service delivery at Kenya Power Company limited in Kapseret Sub County, Uasin Gishu County, Kenya,

### Recommendations

The management of Kenya Power Company limited should be ready to offer a competitive cost to their contractors. Management of Kenya Power Company limited should ensure there is existence of a competent outsourcing team. They should also sensitize its employees on the activities of Kenya Power Company limited, the activities outsourced and reasons for outsourcing. For effective implementation of outsourcing there should be an overall clear understanding of what it entails and requires for great performance.

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