

**INFLUENCE OF OUTSOURCED PUBLIC SERVICE  
PROVIDER'S QUALITY DIMENSIONS ON  
PERFORMANCE OF NAIROBI CITY COUNTY**

**BOAZ KEN INGARI**

**DOCTOR OF PHILOSOPHY**

**(Business administration)**

**JOMO KENYATTA UNIVERSITY OF  
AGRICULTURE AND TECHNOLOGY**

**2018**

**Influence of Outsourced Public Service Provider's Quality Dimensions  
on Performance of Nairobi City County**

**Boaz Ken Ingari**

**A Thesis Submitted in Partial Fulfillment for the Degree of Doctor of  
Philosophy in Business Administration (Strategic Management) in the  
Jomo Kenyatta University of Agriculture and Technology**

**2018**

## DECLARATION

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

Signature ..... Date .....

**Boaz Ken Ingari**

This thesis has been forwarded for examination with our approval as the University Supervisors.

Signature ..... Date .....

**Prof. M.M. Sakwa, PhD**

**JKUAT, Kenya**

Signature ..... Date .....

**Prof. Mike, A. Iravo, PhD**

**JKUAT, Kenya**

## **DEDICATION**

I dedicate this work to my best friend and loving wife, Jessica M. Ingari and our two wonderful kids, Naomi and Isaac for the immense support and sacrifices they made throughout the entire PhD. program. My very special thanks to my late parents, my siblings, and parents-in-laws, for their great encouragement and support.

## **ACKNOWLEDGEMENT**

I want to thank the Almighty God for his guidance in my entire academic journey. Secondly, I sincerely acknowledge the patience, professional guidance and encouragement of my academic supervisors, Prof. Maurice M. Sakwa, and Prof. Mike Iravo, who were very instrumental in guiding, advising and ensuring that this work was successful. I also salute my wife, Jessica M. Ingari, for her help in proofreading and editing the thesis documents endlessly throughout the entire writing process. Special thanks to Dr. Fridah Simba and Dr. Aggrey Wanyama for their undying support; and the entire JKUAT Mombasa CBD fraternity for their help at various stages.

Lastly, I sincerely thank the customers of the Nairobi City County, specifically in data collection process, without their support I would not have been able to collect data for this research. Thank you all.

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## ACRONYMS

<b>BPO:</b>	Business process outsourcing
<b>BSC:</b>	Balanced Scorecard
<b>CBD</b>	Central Business District
<b>CBOs</b>	Community based organizations
<b>DRDSL</b>	Domestic Refuse Disposal Services Limited
<b>ICT</b>	Information and Communications Technology
<b>KRHL</b>	Kenya Refuse Handlers Limited
<b>MSW</b>	Municipal Solid Waste
<b>MSWM</b>	Municipal Solid Waste Management
<b>PWC</b>	PricewaterhouseCoopers
<b>SERVQUAL</b>	Service Quality Model
<b>TCE</b>	Transaction Cost Economics
<b>UNEP</b>	United Nations Environment Program

## DEFINITION OF TERMS

<b>Assurance</b>	(Kotler & Keller, 2012) defined assurance as knowledge and courtesy of employees and their ability to inspire trust and confidence.
<b>Empathy</b>	Taking care of the customers by giving attention to them at individual level (Blery <i>et al.</i> , 2009).
<b>Expectations</b>	(Zeithaml & Bitner, 2000) suggested that customer expectations are beliefs about a service that serve as standards against which service performance is judged.
<b>Performance</b>	Performance in the public sector describes the results of an activity in a specific area or aggregate results from several or all activity fields of a public body, being measured either in absolute terms (as an index) or in relation to the results achieved in the previous periods (Handler <i>et. al.</i> , 2004).
<b>Perceived Quality</b>	<b>Service</b> (Gronroos, 2000) argues that the perceived service quality is not an outcome of the technical and functional dimension only, but an outcome of the difference between the customer's expectations of service quality and the customer's experiences of service quality.
<b>Reliability</b>	Ability of a service provider to provide the committed services truthfully and consistently (Blery <i>et al.</i> , 2009).
<b>Responsiveness</b>	(Johnston, 1997) defines responsiveness such as speed and timeliness of service delivery.
<b>Servicescapes</b>	“The built environment (the manmade, physical surroundings as opposed to the natural or social environment)” (Bitner, 1992).
<b>Service</b>	A service is an activity or series of activities of more or less intangible nature. It normally, but necessarily, takes place in interactions between customers and service employees



and/or physical resources or goods and /or systems of the service provider (Shahin, 2006).

**Service Quality**

(Nitecki & Hemon, 2000) defined service quality in terms of “meeting or exceeding customer expectations, or as the difference between customer perceptions and expectations of service”.

**Tangibles**

(Santos, 2002) refers to tangibles as the elements of a service and includes aspects such as the appearance of physical facilities, tools and equipment, personnel, and communication material.

## **ABSTRACT**

To ensure that public sector can fully benefit from outsourcing, Nairobi City County should adopt informed approaches in their outsourcing strategy. This study assessed the influence of outsourced public service provider's quality dimensions on performance of Nairobi City County in Kenya. Specifically, the study investigated the influence of the outsourced public service provider's quality dimensions, which are reliability, responsiveness, tangibles, assurance, and empathy, on performance of Nairobi City County. The study adopted a descriptive research design. Primary data was collected using structured questionnaire instruments with closed-ended questions on a five-point likert scale. The questionnaires were self-administered, and had two main sections of 26 items, one testing for expectations, and the other for perceptions. The five SERVQUAL service quality dimensions and performance guided the choice of the 26 items. Factor analysis was used to assess the validity and Cronbach's alpha was used to assess reliability of the questionnaire. SERVQUAL analysis was used to test the difference between expectations and perceived service quality based on the service dimensions. Multiple regression analysis was performed to assess the relationship between the dependent variable (perceived quality of public service) and the independent variables (reliability, responsiveness, tangibles, empathy and assurance) and to test the research hypotheses on the influences strategic outsourced public service provider's service quality dimensions on the quality of public services in the Nairobi City County in Kenya. The study findings revealed that all the strategic outsourced public service providers' service dimensions that are reliability, assurance, empathy, responsiveness, and tangibles influenced the performance of Nairobi City County. However, tangibles and assurance dimensions had the most influence on performance. The study recommends that outsourced public service providers' employees need to be more responsiveness and assuring in their service delivery. The service providers therefore need to get reliable modern machinery and equipment and ensure that their employees have all the necessary protective and work tools and equipment for performing their duties. The employees therefore need to show genuine sincerity in their interactions with

their customers. The study further recommends that outsourced public service providers need to invest more in employee training programs to enhance individualized customer service delivery aimed at establishing long-term relationships with their customer and improving the service quality offering.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Public sector leaders around the world face a common set of challenges if their services are to meet the increased expectations of their ‘customers’ – both citizens and businesses. One common challenge faced by every organization is how to service its customers better (PWC, 2007). According to (Dale, 2006), in today’s global competitive marketplace the demands of the customers are forever increasing, as they require improved quality of products and services. The public sector is no exception. Traditionally, it has been seen as a passive vehicle for executing social policy mandated by legislation. Increasingly, however, accustomed to enhanced service delivery from the private sector, citizens/businesses view the public sector as another provider of ‘services’– services for which they pay taxes. Citizens today are more aware of their rights, have better access to information on public services and consequently have higher expectations of service levels. Because they have become accustomed to capable private sector organizations providing high levels of customization and other benefits, they are not prepared to accept that public sector organizations are incapable of improving their own service delivery. They also expect a positive customer experience and better returns on the taxes they pay. Further, a number of countries have empowered citizens with ‘Right to Information’ legislation leading to heightened awareness about customer rights and, consequently, customer service (PWC, 2007).

To address this, the public sector must find ways of improving the efficiency and effectiveness of its service delivery. This means providing value for money by improving quality of service (accessibility for all and satisfactory customer experiences and outcomes), and reducing the costs involved in providing those services (PWC, 2007). Driven by these changing expectations, the public sector is increasingly required to redefine its role, strengthen its customer focus and build integrated service delivery

models. If they are to realize the desired benefits, these models must be based on meeting customer needs more efficiently and more effectively. According to (Gowan *et al.*, 2001), providing service in public sector is more complex because it is not only a matter of meeting the stated needs but also finding out the stated needs, setting the priorities, and allocating public resources. Delivering service quality has significant relationship with customer satisfaction (Swanson & Davis, 2003), customer retention (Yavas *et al.*, 2004), loyalty (Boshoff & Gray, 2004), costs (Wilson, 2008), profitability (Irving & Dickson, 2004), service guarantees (Kandampully & Butler, 2001) and growth of organization (Sohail, 2003).

Public sector organizations are always under pressure to provide quality services (Randall & Senior, 1994) and improve efficiency (Robinson *et al.*, 2005). Rudianto, (2005) stated that the core of public service is the attitude of being helpful, friendly and professional in providing services or products from a certain agency that satisfy the society. Public service demands of each element in the agency to empathize with the public. It implies a certain meaning; as the ability of government bureaucrats to put themselves on the community and comprehend the things or issues from a community perspective. In today's world of global competition, rendering quality service is a key for success, and many experts concur that the most powerful competitive trend currently shaping marketing and business strategy is service quality.

Since the 1980s service quality has been linked with increased profitability, and it is seen as providing an important competitive advantage by generating repeat sales, positive word-of-mouth feedback, customer loyalty and competitive product differentiation. As (Zeithaml & Bitner, 1996) point out: . . . the issue of highest priority today involves understanding the impact of service quality on profit and other financial outcomes of the organization. And as (Oyeobu *et al.*, 2014) point out, service quality has since emerged as a pervasive strategic force and a key strategic issue on management's agenda.

It is no surprise that practitioners and academics alike are keen on accurately measuring service quality in order to better understand its essential antecedents and consequences, and ultimately, establish methods for improving quality to achieve competitive advantage and build customer loyalty.

A service is an activity or series of activities of more or less intangible nature. It normally, but necessarily, takes place in interactions between customers and service employees and/or physical resources or goods and /or systems of the service provider (Shahin, 2006). According to (Douglas & Connor, 2003), (Parasuraman *et al.*, 1985), and (Ladhari, 2008), the intangible elements of a service (inseparability, heterogeneity and perishability) are the critical determinants influencing service quality perceived by a consumer. This means that a service must be well defined by the provider in terms of its characteristics in order to understand how consumers perceive service quality. More than two decades ago (Surprenant & Solomon, 1987) stated that service encounters are human interactions. They suggested that customers and service providers have roles to play during and possibly after service encounters and that these roles are based on “interpersonal interactions” between organizations and customers. The perspectives of both the service provider and the service receiver thus intrinsically affect service quality in all service encounters. Similarly, (Czepiel, 1990) concluded that research on service quality must always include the perspectives of both the provider and the receiver. However, most research on the service quality construct has been restricted to one perspective: that of the service receiver (Parasuraman *et al.*, 1988). A few have applied dual perspectives and considered interactive features of service quality in service encounters (Tam & Wong, 2001; Chow-Chua & Komaran, 2002; Dedek, 2003; Svensson, 2004, 2006). It is against this backdrop that motivated the need for this study. The focus of the study was to establish the contribution of outsourced public service providers’ quality dimensions on performance of public organizations.

Service quality has been defined as: a consumer attitude reflecting the perceived overall superiority and excellence in the process and outcome of a service provider (Parasuraman *et al.*, 1988). (Nitecki & Hernon, 2000) defined service quality in terms of

“meeting or exceeding customer expectations, or as the difference between customer perceptions and expectations of service”. In addition, one of important definitions is that the quality of service as perceived by customer is the result of an evaluation process in which they compare their perspective of service outcome against what they expected (Gronroos, 2007). Service quality is a comparison of expectations with performance. A business with high service quality will meet customer needs whilst remaining economically competitive. Improved service quality may increase economic competitiveness. This aim may be achieved by understanding and improving operational processes; identifying problems quickly and systematically, establishing valid and reliable service performance measures and measuring customer satisfaction and other performance outcomes. (Parasuraman *et al.*, 1985) and (Zeithaml *et al.*, 1990) noted that the key strategy for the success and survival of any business institution is the delivery of quality services to customers. The quality of services offered will determine customer satisfaction and attitudinal loyalty.

Etzel, Walker and Stanton (2007) proposed service quality as the key success factor, originated from consumer expectation and perception of services; and quality evaluation did not simply aim at the service result, but contained the service providing process. (Homburg *et al.*, 2007) explained that performance was affected by corporate behavioral activities, including attracting new customers with certain services, achieving expected growth and market share, and ensuring such behaviors being able to reinforce organizational performance. (Tan, 1999) suggested that an enterprise with higher technological instrument, products, and service quality would relatively present more significant organizational performance. (Rust & Oliver, 2000) stated that excellent service quality was the key factor in an enterprise enhancing organizational performance in the globalized market. In other words, the competitive advantages of an enterprise lied in the provision of high service quality that excellent service quality not only could enhance the organizational profitability, but could create excellent organizational performance for the organization (Lin & Lee, 2005).

### **1.1.1 Service Quality, Customer Satisfaction and Performance**

Delivering service quality has significant relationship with customer satisfaction (Swanson and Davis, 2003), customer retention (Yavas, Benkenstein & Stuhldreier, 2004), loyalty (Boshoff & Gray, 2004), costs (Wilson, 2008), profitability (Irving & Dickson, 2004), service guarantees (Kandampully & Butler, 2001) and growth of organization (Sohail, 2003). According to Sureshchandar *et al.* (2002), customer satisfaction should be seen as a multi dimensional construct just as service quality meaning it can occur at multi levels in an organization and that it should be operationalized along the same factors on which service quality is operationalized. Parasuraman *et al.* (1985) suggested that when perceived service quality is high, then it will lead to increase in customer satisfaction. He supports that fact that service quality leads to customer satisfaction and this is in line with Saravana and Rao, (2007) and Lee *et al.* (2000) who acknowledge that customer satisfaction is based upon the level of service quality provided by the service provider.

According to Negi, (2009) the idea of linking service quality and customer satisfaction has existed for a long time. He carried a study to investigate the relevance of customer-perceived service quality in determining customer overall satisfaction in the context of mobile services (telecommunication) and he found out that reliability and network quality (an additional factor) are the key factors in evaluating overall service quality but also highlighted that tangibles, empathy and assurance should not be neglected when evaluating perceived service quality and customer satisfaction. Fen and Lian (2005) found that both service quality and customer satisfaction have a positive effect on customer's re-patronage intentions showing that both service quality and customer satisfaction have a crucial role to play in the success and survival of any business in the competitive market.



Many authors who studied the relationship between perceived service quality and customer satisfaction have shown that service quality determines customer satisfaction (Anderson *et al.*, 1994; Cronin & Taylor, 1992; Iacobucci *et al.*, 1994; Rust & Zahorik, 1993 – all cited in Cristobal *et al.*, 2007). In a Turkish study Yavas *et al.* (1997) confirmed that three dimensions of service quality: tangibles, responsiveness and empathy are significant predictors of customer satisfaction. Parasuraman *et al.* (1988) stated that there is a distinction between service quality and customer satisfaction: perceived service quality is a global judgment or attitude relating to the superiority of the service, whereas customer satisfaction is related to a specific transaction. Early customer satisfaction research typically defined satisfaction as a post-choice evaluative judgment concerning a specific purchase decision (Homburg *et al.*, 2007). Additional research into customer satisfaction claims that satisfaction should be viewed as a judgment based on cumulative experience with a particular product or service rather than a transaction specific encounter (Anderson *et al.*, 1994). Tse and Wilton (1988) suggested that satisfaction is a general psychological phenomenon, describing the emotional state resulting from an evaluation of the perceived discrepancy between prior expectations and actual performance of the product or service.

A study in retail banking also proved that among other drivers of customer satisfaction the key explanatory variables are the dimensions of service quality, such as core and relational performance, problem encountered and satisfaction with problem recovery (Levesque & McDougall, 1996). A positive and significant association also existed between customers' satisfaction and the core (reliability) and relational (tangibles, responsiveness, empathy and assurance) dimensions of service quality (Jamal & Nasser, 2002). Researchers often use the terms service quality and customer satisfaction interchangeably (Caruana, 2002). A number of distinctions can be made between customer satisfaction and perceived service quality. These include that satisfaction is a post-decision customer experience, while service quality is not (Caruana, 2002; Oliver, 1993). Expectations are also defined differently for satisfaction and perceived service quality. According to Boulding *et al.* (1993), expectations reflect anticipated

performance in satisfaction literature, while in service quality literature; expectations are conceptualized as a normative standard of future wants. Zeithaml and Bitner (2006) believe that service quality and customer satisfaction have certain things in common, but satisfaction is generally influenced by service quality.

There appears to be perpetual interest in customer satisfaction as a means of evaluating performance. According to Kotler and Keller (2012), high customer satisfaction ratings are widely believed to be a leading indicator of a company's financial health. Many firms use customer satisfaction as a criterion for diagnosing product or service performance and even tie customer satisfaction ratings to executive and employee compensation (Anderson & Sullivan, 1993). Retailers therefore recognize that customer satisfaction plays a key role in a successful business strategy (Gomez *et al.*, 2004) and it is therefore crucial for managers to understand what drives customer satisfaction (Martinez-Ruiz *et al.*, 2010).

### **1.1.2 Background of Nairobi City County**

Nairobi is the capital and largest City of Kenya. The name "Nairobi" comes from the Maasai phrase 'Enkare Nyrobi', which translates to "cold water". Nairobi is the most populous City in East Africa, with a current estimated population of about 3 million (Hope, 2012). The City of Nairobi was established in 1899 as a railway depot to serve the Kenya- Uganda Railway. It was gazetted as a Township in 1903 and upgraded to Municipal Board in 1928. In 1950 Nairobi was granted City status through a Royal Charter by the British Colonial administration. Nairobi later got incorporated under the Local Government Act Cap. 265 which came into effect in January 1964.

Nairobi City is one of the most prominent cities in Africa, both politically and financially, with over 100 organizations operating in the city. It is the Headquarter of the United Nations Environment Program (UNEP) and the main coordinating headquarters for the United Nations (UN) affairs for Africa and the Middle East. With a projected population of 4,004,400 in 2014, Nairobi is the second largest city in the Great Lakes

region after Dar-es-Salaam of Tanzania and the 14<sup>th</sup> largest city in Africa. It is an established commercial and cultural city. The Nairobi stock exchange is one of the largest and oldest in Africa.

Nairobi City County came into being in 2013 after the promulgation of the Constitution that abolished the then existing 8 provinces and created 47 counties. The County, however, retained the same boundaries of the former Nairobi Province and the former Nairobi City Council. It also falls within the Nairobi Metropolis that comprises of four Counties namely; Nairobi, Kiambu, Kajiado and Machakos. The metro is estimated to generate about 60% of the nation's wealth.

### **1.1.3 Strategic Outsourcing of public Services in Nairobi City County**

Strategic outsourcing of public services by county governments is gaining popularity here in Kenya. In Nairobi county, the Kenya Refuse Handlers Limited (KRHL), Domestic Refuse Disposal Services Limited (DRDSL), and Bins (Kenya) Limited have been licensed to do solid waste management in the Central Business District (CBD) and some residential areas; the result has been improved efficiency. A survey of residents of Nairobi has shown that 47% of those paying US\$1.25/month or less would be prepared to pay more than US\$2.5/month for good waste management services (Rotich *et al.*, 2005). In the lower income areas in Nairobi, a number of NGOs and community based organizations (CBOs) such as the Undugu Society among others have gotten involved in projects aimed at improving the livelihood of unemployed street children through mobilization towards self-employment groups (Gathuru, 1994). Most Kenyan cities and municipalities have outsourced IT services, general consultancy services, public car parking management (KAPS Ltd in Nairobi and Mombasa), and general cleaning and solid waste management.

To improve management of Municipal Solid Waste (MSW) collection and disposal, the Ministry of Local Government approved the involvement of the private sector through privatization of some of the services (Rotich *et al.*, 2005). Private MSW collection and

disposal services have successfully worked in the Central Business Districts (CBDs) and in upper class residential areas in Nairobi. In Nairobi, the Kenya Refuse Handlers Limited (KRHL), Domestic Refuse Disposal Services Limited (DRDSL), and Bins (Kenya) Limited have been licensed to clean the CBD and some residential areas; the result has been improved efficiency. Private MSW handling may be an expensive venture, which can only be sustained by high monthly charges (10 times those charged by the City council). For the more affluent communities this is a welcome relief (Rotich *et.al.*, 2006). With privatization of MSW services in the upper to middle income areas, local authorities can then divert some of the services to the poor suburban areas communities where private services may not be affordable.

## **1.2 Statement of the Problem**

In Kenya, many young people move to urban areas in search of better opportunities, concentrating in Nairobi and Mombasa. By 2006, Nairobi employed 25% of Kenyans and 43% of the country's urban workers and it generated over 45% of GDP. However, over 60% of its population lived in slums. This continued influx of people into the city has increased the strain for jobs, impacted provision of public goods, education, utilities, housing and infrastructure among others. More often than not, where the public and formal systems have failed, the informal has come forth as better alternative, especially for the poor and vulnerable in the city (UNHABITAT, 2006). The Nairobi City County is at crossroads to fulfill its mandate in a rapidly evolving demographic, political, technological and socio-economic environment (Ndanga, 2013). Over the two decades, the County's financial position and its ability to deliver services to Nairobi residents has deteriorated gradually to unacceptable standards. The inability of the County to provide infrastructure services to match rapidly growing population, commercial and industrial demand has led to problems such as overcrowding, inadequate sanitation, poor health, polluted water, inadequate liquid and solid waste management and lack of recreational facilities besides many other urban degeneration problems. The situation has subsequently led to increased crime, mushrooming of slums, construction of illegal structures and rapidly declining standards of living (Mitullah, 2003).

As noted by Oyugi and Kibua (2006), the mandate of the Nairobi City County is to provide and manage basic social and physical infrastructure services to the residents of Nairobi. These services include basic education, housing, health, water and sewerage, refuse and garbage collection, planning and development control, urban public transport and fire services among others (RoK, 2012). The mandate is well aligned to the vision of Nairobi City County to be ‘The City of Choice to invest, work and live in’. The mission is to provide affordable, accessible and sustainable quality services, enhancing community participation and creating a secure climate for political, social and economic development through the commitment of a motivated and dedicated team. (County Statistics Abstract: Nairobi City County, KNBS, 2015).

For decades, innumerable ‘Nairobians’ have suffered silently particularly in the hands of Nairobi County Council ‘askaris’ who bundle them into vans and drive around the city extorting for bribes. They have witnessed parking attendants failing to issue tickets so that cars can be clamped; ‘sting operations’ against ‘Matatu’ passengers by council officials; mothers in Pumwani maternity hospital and other council hospitals mourning the loss of their babies because of the lack of adequate treatment; and hawkers on the dirty rubbish- strewn streets that are ‘dotted with dangerous manholes’; the motorists who get a raw deal regardless of paying through the nose in parking fees and other levies (Kiberenge, 2012). Business owners and traders are required by law to be licensed and given permits to operate by the Nairobi City County. This has seen many of the traders in Nairobi make a number of visits to County Hall in quest for the above legislative requirements. Here, there are long queues, slow services from the tellers and an opinion that there are less than enough tellers to adequately serve the customers (Kiberenge, 2012). As (Kiberenge, 2012) notes, Nairobi residents met the award of International Standard Organization (ISO) certification to County Council of Nairobi (CCN) for service delivery with disbelief and outrage.

To deliver great customer service, Government agencies must understand the needs of their customers, and adapt to improve the way those needs are met (Pearce & Robinson, 2003). It is critical then that Nairobi City County deal with customers in accordance with the principles of courtesy, fairness, openness and transparency. In such an environment customers should have the opportunity to say when service standards are not being met or when they have not been treated with courtesy and fairness (Cook, 2011; Russell, 2004). Great service quality happens when you exceed expectations— and expectations are higher than ever. People want to interact with Government on their own terms. They want instant, accurate, easy-to-understand information, delivered via their channel of choice (Farnham & Horton, 1996).

A study carried out by (Ileri, 2008) on the extent to which restaurants and hotels operating within the Nairobi Central Business District (NCBD) are satisfied with services of the City council of Nairobi established that a gap exists between services provided and the customers' expectations and on average most customers were not satisfied with the services. Related studies carried out by (Mwenda, 1987) on services from Kenya Ports Authority and customers satisfaction, (Ngatia, 2002) on service provision in retailing industry, all showed that on average customers were dissatisfied with the service quality levels provided by the major service providers. All these studies failed to address the issue of outsourced public service provider's quality dimensions on performance of public organizations, which is the concern for the current study.

### **1.3 Research Objectives**

The main objective of the study was to establish the influence of outsourced public service provider's quality dimensions on performance of Nairobi City County.

### **1.3.1 Specific Objectives:**

- i. To examine the extent to which the outsourced public service provider's reliability influence performance of the Nairobi City County.
- ii. To examine the extent to which outsourced public service provider's responsiveness influence performance of the Nairobi City County.
- iii. To determine the extent to which outsourced public service provider's assurance influence performance of the Nairobi City County.
- iv. To determine the extent to which outsourced public service provider's empathy influence performance of the Nairobi City County.
- v. To determine the extent to which outsourced public service provider's tangibles influence performance of the Nairobi City County

### **1.4 Research Hypothesis**

This study tested the following null hypotheses:

- i. **H<sub>01</sub>**The outsourced public service provider's reliability does not influence the performance of the Nairobi City County
- ii. **H<sub>02</sub>**The outsourced public service provider's responsiveness does not influence the performance of the Nairobi City County.
- iii. **H<sub>03</sub>**The outsourced public service provider's assurance does not influence the performance of the Nairobi City County
- iv. **H<sub>04</sub>**The outsourced public service provider's tangibility does not influence the performance of the Nairobi City County.
- v. **H<sub>05</sub>**The outsourced public service provider's empathy does not influence the performance of the Nairobi City County

## **1.5 Significance of the study**

The study is critical and essential for all stakeholders including the government, employees, business community and scholars and researchers. The study will inform, and if need be, provide necessary benchmarks for successful outsourcing of public services with view of improving quality of public services and improving efficiency and effectiveness at the Nairobi City County in Kenya. This study will also benefit other developing countries that seek to initiate strategic outsourcing of their services and products.

### **1.5.1 The Government**

This study will inform the county governments and other public organizations on best practices to ensure that they benefit fully from business process outsourcing

### **1.5.2 Business Community**

This study will highlight the much need information regarding strategic outsourcing of business processes, giving them important insight that will lead to making more informed decisions aimed at achievement of set goals and objectives.

### **1.5.3 Field of Strategic Management**

To ensure that the government can continue to harness the power of strategic outsourcing, public agencies should adopt a more strategic approach when they outsource services. This study seeks to offer strategic insights into best practices that county governments in Kenya can harness strategic outsourcing to improve quality of essential services delivered at a lower cost.



## **1.6 Scope and Justification**

This research study targeted registered businesses operating within Nairobi City County. Since the customer is the best judge of product or service performance, the target population comprised of registered businesses operating within Nairobi city county, who consumed essential public services from outsourced service providers, including liquid and solid waste management, fresh water supply and public parking management. The choice of registered businesses was also motivated by the ease of accessing them and approachability in information sharing. The choice of Nairobi City County is based on the following reasons: Nairobi City County is 100% urbanized (KNBS, 2012); Nairobi City County has been outsourcing their services for over 10 years now (formerly as Nairobi City Council); Nairobi City County outsources the most services compared to other counties in the country, including garbage collection, fresh water supply, liquid waste management, public car parks management, amongst others. Service quality dimensions that are reliability, tangibles, empathy, responsiveness, and assurance are related to overall performance.

## **1.7 Limitations of the Study**

The study had a narrow scope as it only focused on registered businesses operating within Nairobi City County, who consumed essential public services from outsourced service providers, including liquid and solid waste management, fresh water supply and public parking management. However, the target population was very representative in all aspects. Data collection process took long since some respondents were not willing to freely share the information and thought the data collection process was taking too much of their time. In some cases some respondents were asking for payments before they could share the information. This was however addressed by informing them the study was purely academic and no private or public organization was paying for the research exercise.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature review commences by highlighting two related outsourcing theories, and then introduces the concept of service quality, then look at two service quality models, which are SERVQUAL and the Gronroos' service quality models. The conceptual framework variables then follow. There is some focus on service quality as a determinant of organization performance, then critique of the relevant literature and finally, research gaps and a chapter summary.

#### **2.2 Theoretical Reviews**

A theoretical framework is a collection of interrelated concepts, like a theory but not necessarily so well worked-out. A theoretical framework guides a research study, determining what things to measure, and what statistical relationships to look for.

##### **2.2.1 Strategic Outsourcing Theories**

Below are three Strategic Outsourcing Theories which are relevant and related to the study this includes Agency theory, Efficiency theory and Core competencies theory.

###### **2.2.1.1 Agency Theory**

Agency theory is a particular application of efficiency theory (Epstein, 2013). It focuses on the issues that arise when an agent carries out work on behalf of a principal, and the interests of the two parties do not coincide (Epstein, 2013). Efficiency theory predicts that in a well-functioning market, where there is perfect information and the ability to monitor, there should be little difficulty aligning incentives between principals and agents. If the principal is able to sufficiently monitor the agent's performance, it can design sanctions and incentives to encourage optimal behavior. Further, if the agent

knows that the principal will become aware of poor performance, and there are switching options in the marketplace, the agent will be dissuaded from performing poorly

The 1976 article —Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling helped establish Agency Theory (AT) as the dominant theoretical framework of the corporate governance literature, and position shareholders as the main stakeholder (Lan *et al.*, 2010; Daily *et al.*, 2003). The adoption of the agency logic increased during the 1980's as companies started replacing the hitherto corporate logic of managerial capitalism with the perception of managers as agents of the shareholders (Zajac *et al.*, 2004). As any theory, AT is based in a number of assumptions about man, which have a significant impact on the formation of the theory (Davis *et al.* 1997). The most common belief is that AT is based in the economic model of man (Shapiro, 2005). Jensen and Meckling denounce this interpretation however, by arguing that the theory is grounded in what they call REMM – the Resourceful, Evaluative, Maximizing Model (Jensen *et al.*, 1994). They argue that the REMM most closely replicates human action, and that the economic model of man is a simplified version that does not reflect the spectrum of human behavior. Thereby the REMM is largely similar to the economic model of man, which assumes that humans are rational, selfishly motivated and will behave opportunistically, even ruthlessly, whenever advantageous (Ghoshal, 2005; Daily *et al.*, 2003). This theory relates very closely with the Kenyan public organizations especially the county governments where top managements' tenure in office is pegged at Five years. Managers tend to give outsourcing contracts to close political and business associates in return to kickbacks.

Herein, actions are undertaken according to self-interest (Fama, 1980) and opportunistic behavior is fostered when monitoring contracts and relationships becomes difficult and costly due to bounded rationality and information asymmetry (Perrow, 1986; Donaldson, 1990). Opportunism is therefore central to this view of man, where an actor's promise to do a certain action is worthless if the circumstances of the promised action change before the action is carried out (Heath, 2009). As such, changes in behavior are also

driven by changes in incentives (Prendergast, 1999) and behavior is directed by maximizing self-interest under game-theoretical like conditions (Perrow, 1986).

The model of the modern corporation used in AT is driven by the development in the mid 20th Century, where the corporation grew in size, complexity and in the need for external capital. This, combined with an increased stock market, a limit on managerial wealth and a need for efficient risk allocation (Fama, 1980; Fama *et al.*, 1983), meant an increase in the diffused ownership of companies amongst shareholders. As shareholders have a willingness to bear risk but do not necessarily possess the interest and time to actively manage the company (Brealey *et al.*, 2008), a contractual relationship is created wherein an agent (manager) will manage the risk and control the company on behalf of the principal (shareholder), who is the residual claimant, risk bearer and owner of the company (Jensen *et al.*, 1985; Fama *et al.*, 1983). As such, the modern corporation is reduced to a nexus of contracts' between principals and agents and the separation of ownership and control is created (Jensen *et al.*, 1976).

Given the separation of ownership and control, and the diverging risk profiles of the participating parties (Jensen 1989), it cannot be expected that risk-averse managers (agents) will act in the interest of risk-neutral shareholders (principals) as it may not be in the manager's self-interest to pursue shareholder wealth maximization (Bonazzi *et al.*, 2007; Lan *et al.*, 2010; Demsetz *et al.*, 1985). Jensen *et al.* (1985) argue that the three prominent problems with management that cause the conflict of interest are, 1) the choice of effort, 2) differential risk exposure, and 3) differential time horizon. The agency problem in separating ownership and control is therefore the assumed diverging goals of the —cooperating parties – the residual claimant and manager (Donaldson 1990; Hendrikse, 2003). This inevitably increases the incentives for moral hazard and opportunistic behavior as self-interest guide's action (Demsetz *et al.*, 1985). Kenyan contractors are well known for their opportunistic behaviors especially in construction and even service industries. When outsourced service providers offer low prices to the vendor, they're most likely to skimp on service quality.

This theory is very relevant to the study since most outsourced contracts at the Nairobi City County, and other county governments in Kenya tend to have some political connection. The suppliers get the contracts based on their political connections and not delivery competences.

Moral hazard is central to AT, and is also referred to as hidden action or opportunistic behavior (Hendrikse, 2003). However, hidden action refers specifically to the information asymmetry in the contractual relationship (Arrow, 1968), whereas opportunistic behavior is an inclination in the human (Jensen, 1994). Moral hazard on the other hand, is the combination of these two terms together with the above-described conflict of interest (Hendrikse, 2003) and refers to the actual actions taken by the agent once the contract has been entered. Although moral hazard presumably is present in all types of relationships, Boyd *et al.* (1998) researched the possibilities for moral hazard in banking and found two possible areas of moral hazard. One is the relationship between the bank and their borrowers, the other is the moral hazard created from the cushion of the deposit insurance (John *et al.*, 2000; Demsetz *et al.*, 1997), as the deposit insurance reduces the interest from monitoring whilst simultaneously increasing the incentives for risk taking (Macey *et al.*, 2003). Moral hazard is the exact problem that AT is designed to address through various mechanisms – most notable incentives and monitoring.

The problem of moral hazard leads to costs for the firm associated with administering the contract, hereunder contracting, transaction, moral hazard and information costs – namely agency costs (Gomez-Mejia *et al.*, 2005, Jensen *et al.*, 1985). The level of the costs will depend on the ability of the principal to find an appropriate solution to reducing information asymmetries through measuring managerial performance, determining effective incentives, as well as implementing rules and regulations to limit unwanted behavior or moral hazard (Gomez-Mejia *et al.*, 2005). Whilst achieving zero agency costs is practically impossible, as the marginal costs of doing so will eventually be higher than the accompanying benefits of perfect alignment (Jensen *et al.*, 1976), monitoring and incentives intends to minimize them (Jensen *et al.*, 1985; Shapiro, 2005).

The proposed mechanisms for curbing moral hazard are generally monitoring and incentive contracts (Jensen, 1993, Daily *et al.*, 2003), where the board of directors (BOD) comprises the main monitoring mechanism. According to AT, they should act on behalf of the shareholders and hold foremost responsibility for the functioning of the firm, with the goal of reducing information asymmetries through ratifying and monitoring important decisions (Fama *et al.*, 1983; Heath, 2009; Shapiro, 2005, Fama 1980). The BOD is therefore also responsible for controlling resource allocation and accompanying risks.

Recent studies describe how parties engaged in business outsourcing confront issues of incentive alignment and control in practice (Geis, 2011; Blair *et al.*, 2011). For instance, one study reports finding a spectrum in contractual governance mechanisms that parties use to mitigate agency costs. At one end of the spectrum are “market-like” contracts that adopt fixed fees, weak or no incentive or penalty clauses, and pay little attention to service levels or monitoring rights—essentially low control contracts. At the other end of the spectrum are “firm-like” contracts that utilize extensive financial incentives and control rights, with considerable monitoring and economic consequences linked to performance (Blair *et al.*, 2011). In the study sample, firms pursuing simpler outsourcing functions (IT or call center work) tended to choose contracts at the market-like (less control) end of the spectrum. On the other hand, entities outsourcing more complex business functions with higher risk for agency costs used more firm-like (higher control) contractual governance mechanisms (Blair *et al.*, 2011).

#### **2.2.1.2 Efficiency Theory**

The economic analysis of law proposes that the purpose of the law should be to promote economic efficiency (Posner, 2003). Building upon the work of Ronald Coase and Guido Calabresi, Richard Posner first laid the groundwork for efficiency theory in the 1970s. He argued for the “allocation of resources in which value is maximized (Posner, 2003). It followed that the goal of contract doctrine should be “to minimize (contractual) transaction costs, broadly understood as obstacles to efforts voluntarily to shift resources

to their most valuable use (Farber, 2000). Efficiency theory is predicated on a number of assumptions rooted in firm-firm commercial contracts (Schwartz & Scott, 2003). In a world of low transaction costs and a competitive market, efficiency theory assumes that rational market participants will bargain efficiently to maximize the joint surplus (Schwartz & Scott, 2003). Efficiency theory further assumes that contracts do not impose negative externalities (Schwartz & Scott, 2003). The following subparts discuss these assumptions, which pervade efficiency theory analysis, but tend not to be present in public- private contracting.

The first assumption is; rational actors incentivized by maximizing profit obtain gains from trade and efficiently split surplus. A central tenet of efficiency theory is that parties will make rational, wealth-maximizing choices. Efficiency theory assumes that parties value assets more or less correctly and that their transacting choices are motivated solely by wealth maximization goals (Schwartz & Scott, 2003). This theory closely relates to the study in the sense that service providers in their pursuit of operational efficiency would prefer to have the optimal mix of the quality dimensions embedded in their service delivery, based on the market expectations. Establishing the influence of each dimension on service performance can help outsourced organizations allocate resources appropriately and offer quality services efficiently. Efficiency theory assumes that parties can make rational, wealth-maximizing choices because they have good information and “can take clues from the market (Malloy, 1990). The existence of a competitive market is said to reinforce rationality. Where rational actors have choices and contracting parties do a poor job, they will lose renewal opportunities and future work from other contracting partners (Schwartz & Scott, 2003). The second subpart is the role of a well-functioning market. Efficiency theory also assumes that parties transact in a competitive market. A competitive market has enough buyers and sellers such that each party has many alternative trading partners. It permits parties to make rational decisions to maximize their wealth because efficient markets are self-correcting and will counteract faulty decision-making. A competitive market also allocates resources efficiently and allows parties to reach efficient price terms (Cooter & Ulen,

2007). Market participants have greater incentives to maximize profit when they are subject to competitive pressures. Competition allows contracting parties to credibly threaten to take their business elsewhere (Minow, 2003). Competition also creates pressure to generate information to permit comparisons of options (Minow, 2003). Competition is said to create incentives for innovation and increased efficiency, at least in private markets (Minow, 2003).

The third related assumption of efficiency theory is the absence of negative externalities (Polinsky & Shavell, 2007) An externality is an effect that a transaction between one set of parties puts on other parties who were not a part of the deal (and presumably had no say in the matter). Externalities may be negative or positive. A positive externality is a benefit to non-parties, whereas a negative externality imposes costs on non-parties. If a transaction has a negative externality, then the true cost of the transaction is higher than that paid by the parties. Efficiency theory is typically applied “to contracts between firms that do not create externalities (Schwartz & Scott, 2003).

### **2.2.1.3 Core Competencies Theory**

The Core Competencies Theory is based on the Theory of Resources and is an evolution thereof. Researchers Prahalad and Hamel (1990) defined Core Competencies as the collective knowledge of an organization, especially with regard to the ways of combining different productive skills and the integration methods of various different technologies. An analysis of the vendor’s competencies is, according to the Core Competencies Theory, the main factor that determines the success of an agreement. The Core Competencies Theory has also been used to study the phases of relationship management and reconsideration. The Core competencies theory is applicable in the public outsourcing process in Kenya. The Procurement Manual for Works offers guidelines on the tendering process of all outsourced public works in Kenya (Ingari, 2017).



County governments and the private service providers should conduct detailed feasibility analysis, including workable delivery timeframes and fully address “worst-case scenarios” before signing the outsourcing contracts and transferring service delivery functions. Contracts should only be given to competent contractors (PPOA, 2009).

The Core Competencies Theory is the second most popular approach in the academic research related to outsourcing. Pinnington and Woolcock (1995) were based on the Core Competencies Theory in order to investigate whether the outsourcing of business operations related to the IT system of an organization may improve its organizational skills. Their research focused on the phases of preparation and reconsideration. Researchers Baden-Fuller, Targett and Hunt (2000) proposed a decision-making model during the preparation phase based on the Core Competencies Theory, aiming to improve the competitiveness of the organization. The research of Arnold (2000), as set out in the TCE section above, was published in the same year and is worth mentioning at this point, given that the second theoretical pillar of the research is the Core Competencies Theory. It must be noted that the research of Gottschalk and Solli-Sæther (2005), examining the phases of preparation, relationship maintenance and reconsideration, concluded that the Core Competencies Theory is one of the two approaches that better illustrate the success factors of the outsourcing process.

The core competencies theory is relevant to the study since it clearly offers guidelines on how outsourcing contracts should be managed to ensure success. These guidelines are similar in context to those given by the Public Procurement Oversight Authority (PPOA) of Kenya, which sets guideline of all public procurements in Kenya.

### **2.3 Service Quality**

A service is an activity or series of activities of more or less intangible nature. It normally, but necessarily, takes place in interactions between customers and service employees and/or physical resources or goods and /or systems of the service provider

(Shahin, 2006). According to (Douglas & Connor, 2003), (Parasuraman *et al.*, 1985), and (Ladhari, 2008), the intangible elements of a service (inseparability, heterogeneity and perishability) are the critical determinants influencing service quality perceived by a consumer. This means that a service must be well defined by the provider in terms of its characteristics in order to understand how consumers perceive service quality.

Service quality has been defined as: a consumer attitude reflecting the perceived overall superiority and excellence in the process and outcome of a service provider (Parasuraman *et al.*, 1988). (Nitecki & Hernon, 2001) defined service quality in terms of “meeting or exceeding customer expectations, or as the difference between customer perceptions and expectations of service”. In addition, one of important definitions is that the quality of service as perceived by customer is the result of an evaluation process in which they compare their perspective of service outcome against what they expected (Gronroos, 2007). Service quality is recognized as one of the important areas on which public organizations including service providers are focusing in present times (Ancarani & Capaldo, 2001). (Hood, 1995) in his research has revealed dimensions which lead to better quality in public services such as better experience management, adopting corporate style of functioning, bench marking activities, competitive based work environment, optimization and better planning of organizational resources, more focus on service quality output generation.

Service quality in public organizations constitutes of internal and external factors which affect the customers’ perception towards the public services (Middleton, 1998). Internal factors such as strategic issues (Lee, Lee, & Lee, 2006), top management commitment, service quality standards (Middleton, 1998), monitoring systems (Deegan, 2002; Gray, 2002; Alexandre & Short, Dec 1995/Jan 1996), customer complaints handling system (Kotler & Kavin, 2008) and external factors such as alternative services status, professions (Sanchez, 1999). The possibility of demographic character based customer ratings of service performance can also be measured. (Lim, Bennett, & Dagger, 2008) have identified the importance of demographic characteristics in measuring service quality. Demographic characteristics such as age (Kumar & Lim, 2008), income, and

education can be taken into consideration to measure the service quality and can receive different service performance ratings. However, the bias seems to diminish when service fairness is considered. It appears that customer perceptions with regard to demographic characteristics are more powerful and important determinants of overall satisfaction. Customers expect justice in regards to fair service delivery. Interestingly, significance appears to exist between the opinions of customers across various demographical characteristics for service fairness (Snipes, Thomson, & Oswald, 2006). Service quality is also influenced by local or national culture of a particular country. (Karen & Boo, 2007) in their research have appealed to the researchers to add cultural dimension to service quality studies, as the traditional SERVQUAL dimensions may not be meaningful in all situations and contexts.

Culture is the epicenter of a society. It guides the way people live, think, behave, perceive things, and build attitudes. In countries, which are developed like USA, where high quality is the order of life, consumers won't compromise on quality issues, they tend fast towards complaining. (Liu & McClure, 2001) focused their research in studying cultural differences in consumer behavior and found similar outcomes. (Malhotra *et al.*, 1994); (Malhotra *et al.*, 2005) has proved that there is a difference of perception on service quality among customers in developing and developed nations, they have identified ten factors related to social, cultural and economic environment which play role on customers assessment of service quality perception. The pioneering study done by (Hofstede, 1991), in which he had studied about national cultures in line with four service quality dimensions of competence, communication, credibility and courtesy. The study also took into consideration two cultural dimensions as power distance among organizations and presence of individualism or collectivism in the society. Data was collected from a large sample of above one hundred thousand employees of IBM across seventy-two countries, twenty languages and duration was from 1967 to 1973.

Delivering service quality has significant relationship with customer satisfaction (Swanson & Davis, 2003), customer retention (Yavas, Benkenstein & Stuhldreier, 2004), loyalty (Boshoff & Gray, 2004), costs (Wilson 2008), profitability (Irving & Dickson, 2004), service guarantees (Kandampully & Butler, 2001) and growth of organization (Sohail, 2003). According to Sureshchandar *et al.*, (2002), customer satisfaction should be seen as a multi dimensional construct just as service quality meaning it can occur at multi levels in an organization and that it should be operationalized along the same factors on which service quality is operationalized. Parasuraman *et al.* (1985) suggested that when perceived service quality is high, then it will lead to increase in customer satisfaction. He supports that fact that service quality leads to customer satisfaction and this is in line with Saravana and Rao (2007) and Lee *et al.* (2000) who acknowledge that customer satisfaction is based upon the level of service quality provided by the service provider.

According to Negi, (2009), the idea of linking service quality and customer satisfaction has existed for a long time. He carried a study to investigate the relevance of customer-perceived service quality in determining customer overall satisfaction in the context of mobile services (telecommunication) and he found out that reliability and network quality (an additional factor) are the key factors in evaluating overall service quality but also highlighted that tangibles, empathy and assurance should not be neglected when evaluating perceived service quality and customer satisfaction. Fen and Lian (2005) found that both service quality and customer satisfaction have a positive effect on customer's re-patronage intentions showing that both service quality and customer satisfaction have a crucial role to play in the success and survival of any business in the competitive market.

Su *et al.* (2002) carried a study to find out the link between service quality and customer satisfaction, from their study, they came up with the conclusion that, there exist a great dependency between both constructs and that an increase in one is likely to lead to an increase in another. Also, they pointed out that service quality is more abstract than customer satisfaction because, customer satisfaction reflects the customer's feelings

about many encounters and experiences with service firm while service quality may be affected by perceptions of value (benefit relative to cost) or by the experiences of others that may not be as good. A study carried out by Magi and Julander (2009), among grocery stores in Sweden showed a positive relationship between perceived service quality, customer satisfaction and customer loyalty. It was proven that customer satisfaction results from high perceived service quality and this makes the customer loyal. However, it could be possible that a satisfied customer must not necessarily become a loyal customer.

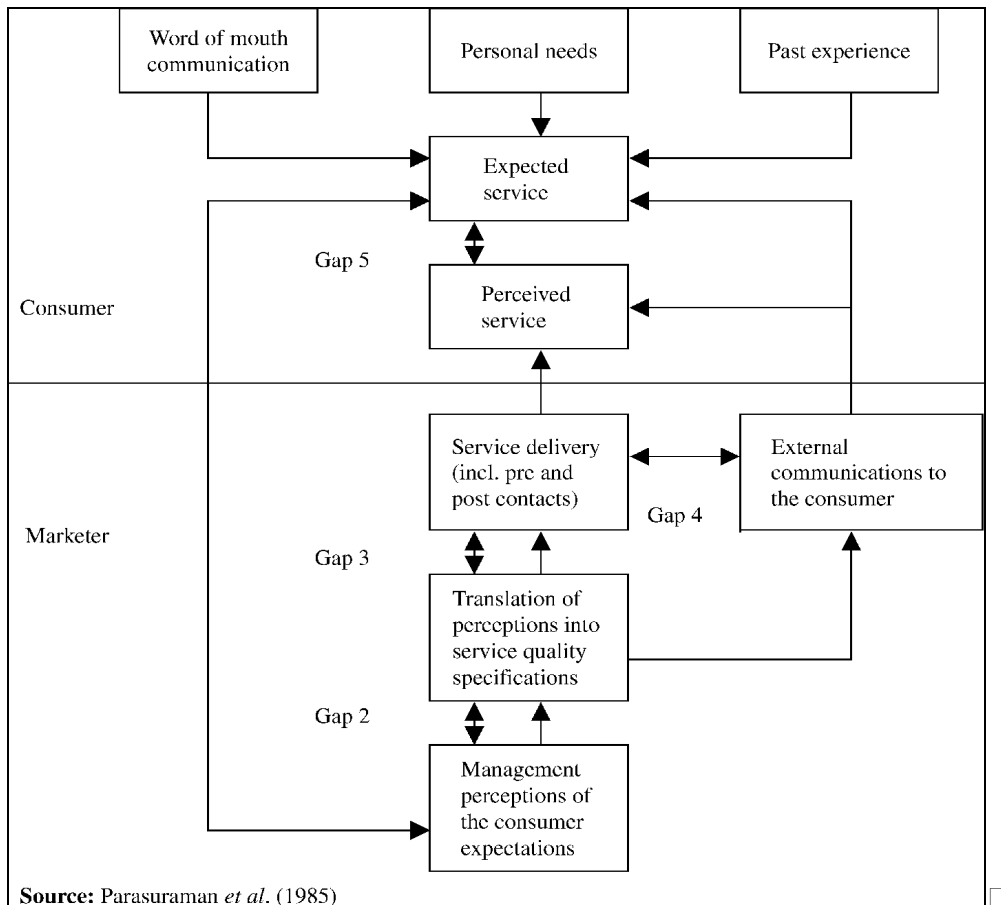
### **2.3.1 Service Quality Models**

Below are three Service Quality Models which are relevant and related to the study this includes GAP Service Quality Model, Gronroos' Service Quality Model and Brady and Cronin Service Quality Model.

### **2.3.2 GAP Service Quality Model**

Parasuraman *et al.* (1985) analyzed the dimensions of service quality and constituted a GAP model that provides an important framework for defining and measuring service quality (Saat, 1999). A gap is created when the perceptions of the delivered service is not as per the expectations of the customer. This gap is addressed by identifying and implementing strategies that affect perceptions, or expectations; or both (Parasuraman *et al.*, 1985; Zeithaml *et al.*, 1990). Parasuraman *et al.* (1988) suggested that customer expectations are what the customers think a service should offer rather than what might be on offer. Zeithaml *et al.* (1990) identified four factors that influence customers' expectations: word-of-mouth communications; personal needs; past experience; and external communications.

When perceptions are higher than expectations, the gaps are narrow and there are high levels of satisfaction, considering the excellent service and quality. To perform the measurement of user satisfaction it is necessary to focus on the expectations and perceptions that the user has about the offered services (Parasuraman *et al.*, 1991), The concept of perceived quality, used both for services as well as for products, has been understood as superiority or excellence, while the concept of service quality is more abstract and intangible. In the absence of objective measures, it may be considered appropriate that measuring the perception of the service performs the evaluation by the user (Zeithaml *et al.*, 1990).



**Figure 2.1: Model of service quality gaps**

Source: Parasuraman *et al.*, 1985; Curry, 1999; Luk and Layton, (2002)

Gaps 1 to 4 (Figure 2.1) are within the control of an organization and need to be analyzed to determine the causes and changes to be implemented which can reduce or even eliminate Gap 5, which is the gap reflecting the difference between customers perceptions and expectations of the firm's level of service. Surveying of employees can help to measure the extent of Gaps 2 to 4 (Zeithmal *et al.*, 1990). This may reveal a difference in perception as to what creates possible gaps. These gaps can be the main obstacle for users to perceive the provision of such services as high quality (Parasuraman *et al.*, 1991).

**Table 2.1: Definitions of the SERVQUAL Gaps**

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Gap 1 Customer expectation- management perceptions gap, <i>The Knowledge Gap</i>	Managers' perceptions of consumers' expectations and the relative importance consumers attach to the quality dimensions
Gap 2 Management perception- service quality specifications gap, <i>The Policy Gap</i>	The difference between what management believes the consumer wants and what the consumers expect the business to provide□
Gap 3 Service quality specifications-service delivery gap, <i>The Delivery Gap</i> .□	The difference between the service provided by the employee of the business and the specifications set by management□
Gap 4 Service delivery-external communications gap, <i>The Communications Gap</i>	The promises communicated by the business to the consumer do not match the consumers' expectations of those external promises
Gap 5 Expected service- perceived service gap, <i>The Service Quality Gap</i>	The difference between the consumers internal perception and expectation of the services

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*The five SERVQUAL gaps as generally defined by (Zeithaml et al., 1990).*

### **2.3.3 Gronroos' Service Quality Model**

The model is not as widely known as the Gap Analysis Model (Kang & James, 2004). The model includes three service quality dimensions. These are technical quality, functional quality and image (Gronroos, 2007a). Technical quality refers to what customers receive by interacting with the service provider (outcome). This dimension is usually more objectively measured than the functional dimension (Palmer, 2008). Functional quality (process) refers to the subjective evaluation that customers make about a service. It also refers to how a service provider performs or delivers a service. For instance, the way personnel deal with customers within the time they are waiting for the service (Palmer, 2008). Furthermore, this dimension is related to appearance, behaviour and organization personnel communicating with customers, which in turn can influence the customer's evaluation of the service and "how the customer gets the technical outcome" (Gronroos, 2007a). Image dimension refers to the company image and how customers perceive the firm (Gronroos, 2007b). External factors such as advertising that is undertaken by the company can influence its image. If a positive image of the organization is held in the memory of the customer, s/he will tolerate small mistakes if these mistakes are not repeated, while a negative image leads to customers being less tolerant of mistakes made by the organization (Kang & James, 2004). In some cases Gronroos introduces image as a dimension, and sometimes he introduces it as a factor that has an impact on technical and functional quality dimensions; he does not refer to it as a dimension. Therefore, Gronroos' model can be seen as both a three dimensional model and a two dimensional model (Gronroos, 2007b; a), depending on whether image is included or excluded as a dimension.





**Figure 2.2: Gronroos' Service Quality Model**

It can be noted from Figure 2.2 (Gronroos' model) above that experienced service has only three dimensions: technical quality, functional quality and image. Expected service, on the other hand, has many components including marketing, communication, sales, image, word-of-mouth and customer needs (Gronroos, 2007b). The experienced service and the expected service determine the perceived service. For instance, a customer has high perceptions of service quality when his or her experiences meet their expectations (Gronroos, 2007b). (Gronroos, 2000) argues that the perceived service quality is not an outcome of the technical and functional dimension only, but an outcome of the difference between the customer's expectations of service quality and the customer's experiences of service quality.

### **2.3.4 Brady and Cronin Service Quality Model**

Brady and Cronin (2001) developed a model for measuring service quality (Figure 4). According to the model; *interaction quality* that was formed by attitude, behavior, and expertise; *physical service environment quality* that was constituted by ambient conditions, design, and social factors; and *outcome quality* that was formed by waiting time, tangibles, and valence affect service quality. They used a seven-point Likert scale from to measure the consumers' attitudes towards the items under the dimensions. Martinez Caro and Martinez Garcia (2007) used this model in their empirical research for measuring perceived service quality in urgent transport service industry and they emphasized this hierarchical conceptualized and multidimensional model was a combining of Rust and Oliver model (1994) and Dabholkar hierarchical RSQS model (1996).

### **2.3.5 Measuring Service Quality in the Public Sector using SERVQUAL Model**

Service Quality has been defined as..."a consumer attitude reflecting the perceived overall superiority and excellence in the process and outcome of a service provider (Parasuraman *et al.*, 1988). Service quality is a comparison of expectations with performance. Measuring quality in the service sector is more difficult than measuring quality of manufactured sector because quality evaluations are not made solely on the outcome of a service; they also involve evaluations of the process of service delivery. One of popular service quality models is SERVQUAL model (Parasuraman *et al.*, 1985, 1988), which assess service quality through the gaps between customer "expectations" — (E) and "perceptions" — (P). The SERVQUAL model proposes that customers evaluate the quality of a service on five distinct dimensions: reliability, responsiveness, assurance, empathy, and tangibles. The SERVQUAL instrument consists of 22 statements for assessing consumer perceptions and expectations regarding the quality of a service. Perceived service quality results from comparisons by consumers of expectations with their perceptions of service delivered by the service providers (Zeithaml *et al.*, 1990). It can be argued that the factor underpinning the delivering of

good perceived service quality is actually meeting the expectations of the customers. Thus, excellent service quality is exceeding the customers' expectations. (Zeithaml & Bitner, 2000) suggested that customer expectations are beliefs about a service that serve as standards against which service performance is judged.

SERVQUAL represents service quality as the discrepancy between a customer's expectations for a service offering and the customer's perceptions of the service received, requiring respondents to answer questions about both their expectations and their perceptions Parasuraman et al., (1988). The use of perceived as opposed to actual service received makes the SERVQUAL measure an attitude measure that is related to, but not the same as, satisfaction (Parasuraman *et al.*, 1988). The difference between expectations and perceptions is called the gap, which is the determinant of customers' perception of service quality. (Parasuraman *et al.*, 1988), later developed the SERVQUAL model which is a scale developed to assess customer perceptions of service quality in service and retail businesses. The scale decomposes the notion of service quality into five constructs as follows: Tangibles, Reliability, Responsiveness, Assurance and empathy. It bases on capturing the gap between customers expectations and experience which could be negative or positive if the expectation is higher than experience or expectation is less than or equal to experience respectively.

According to the study carried out by (Ladhari, 2009), it is recommended that the SERVQUAL model is a good scale to use when measuring service quality in various specific industries but that it is appropriate to choose the most important dimensions of this model that fit to that particular service being measured in order to assure reliable and valid results. In this regard, the study adopted this model because it takes into account customer's expectation of a service as well as perceptions of the service, which is best way to measure service quality in service sector (Shahin, 2005).

Parasuraman *et al.* (1985) identified 97 attributes, which were found to have an impact on service quality. These 97 attributes were the criteria that are important in assessing customer's expectations and perceptions on delivered service" (Kumar *et al.*, 2009). These attributes were categorized into ten dimensions (Parasuraman *et al.*, 1985) and later subjected the proposed 97 item instruments for assessing service quality through two stages in order to purify the instruments and select those with significant influences (Parasuraman *et al.*, 1988). The first purification stage came up with ten dimensions for assessing service quality which were; tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding, knowing, customers, and access. They went into the second purification stage and in this stage they concentrated on condensing scale dimensionality and reliability. They further reduced the ten dimensions to five, which were; tangibility, reliability, responsiveness, assurance, and empathy.

The SERVQUAL model conceptualizes service quality as a function of five basic dimensions: the reliability with which the service is provided; the assurance customers receive that they are purchasing the best possible service; the tangible features of the service experience; the empathy employees show customers; and the responsiveness of service personnel (Parasuraman *et al.*, 1988). The relevance of each of these five public service dimensions as they relate to performance will be briefly discussed.

Reliability is defined as the "ability to perform the promised service dependably and accurately" (Parasuraman *et al.*, 1988). Reliability means the ability of a service provider to provide the committed services truthfully and consistently (Blery *et al.*, 2009). The reliability construct in the SERVQUAL model represents the service provider's ability to perform the promised service dependably and accurately.

According to (Rowley, 2006), Tangibles "refer to the product's physical properties and the extent to which it can be seen, felt, heard, tasted or smelt". (Parasuraman *et al.*, 1985) define the tangibility as appearance of physical facilities, equipment, personnel, and written materials. Tangibles involve the firms' representatives, physical facilities,

materials, and equipment as well as communication materials. Furthermore, Physical environmental conditions appeared as a clear evidence of the care and attention paid for the details offered by the service provider (Fitzsimmons & Fitzsimmons, 2001). Tangibles refer to those things which have a physical existence and can be seen and touched. In context of service quality, tangibles can be referred to as Information and Communications Technology (ICT) equipment, physical facilities and their appearance (ambience, lighting, air-conditioning, seating arrangement); and lastly but not least, the services providing personnel of the organization (Blery *et al.*, 2009). The tangible factors including physical environment have some effects on consumers in service organizations as well as employees.

Responsiveness is defined as the willingness or readiness of employees to provide services. It contains the timeliness of service (Parasuraman *et al.*, 1985). It also contains understanding the needs and requirements of the customer, easy operation time, and individual attention provided by the staff, attention to the problem and customers' safety in their dealings (Kumar *et al.*, 2009). Responsiveness is the determinant that defines the willingness to help customers and to provide prompt services.

Assurance is developed by the level of knowledge and courtesy displayed by the employees in rendering the services and their ability to instill trust and confidence in customer (Blery *et al.*, 2009). The assurance construct extends to the competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), credibility and security of the employees and their ability to inspire trust and confidence. Assurance may also positively influence repurchase intension of customers (Ndubisi, 2006; Ndubisi & Wah, 2005). This dimension concerns how knowledgeable and courteous employees are to inspire confidence and trust from their customers.

Empathy means taking care of the customers by giving attention to them at individual level (Blery *et al.*, 2009). A positive and significant relationship is found between empathy and customer satisfaction by (Iglesias & Guillén, 2004). Wieseke *et al.* (2012) empirically investigated the role of empathy in service quality and its impact on customer satisfaction. It was established that customers treated emphatically are more often visitors and prone to forgive any mistakes that may occur. Empathy creates an emotional relationship with customer, providing customer a touch of importance for business. (Karatepe, 2011) explored the service environment impact with empathy and reliability on loyalty. Empathy works as a moderator between quality and customer satisfaction. Empathy can change the behavior of customer ultimately.

### **2.3.6 Implications of SERVQUAL within Service Industries**

Researchers have paid considerable attention to SERVQUAL and have used the instrument extensively to measure service quality in a variety of service industries such as banking (Duncan & Elliott, 2004; Lopez, Hart & Rampersad, 2007; Mukherjee & Nath, 2005; Jiang, Klein & Carr, 2002; Arasli, Katircioglu & Mehtap-Smadi, 2005; Wong, Rexha & Phau, 2008; Arasli, Mehtap-Smadi & Katircioglu, 2005; Lassar, Manolis & Winsor, 2000); higher education (Oldfield & Baron, 2000; public service (Kilbourne *et al.*, 2004; Lim & Tang, 2000; Babakus & Mangold, 1991; Carman, 1990); tourism industry (Augustyn & Ho, 1998; Hudson & Miller, 2004); retail chain (Parasuraman, Zeithaml & Berry, 1994; Dabholkar, Thorpe & Rentz, 1996); clubs (Lam, Wong & Yeung, 1997); Public Library services (Yu *et al.*, 2008; Cook & Thompson, 2001); restaurant (Bojanic and Rosen, 1994); internet portals (Liu, Du & Tsai, 2008); fast food (Lee & Ulgado, 1997); information systems (Jiang, Klein & Crampton, 2000); and telecommunications (Van der Wal, Pampallis & Bond, 2002; Lai *et al.*, 2007).

In line with the above, it can be argued that various researchers have taken SERVQUAL as a measure of service quality in different service industries. Furthermore, it was noted from the review that there have been a number of empirical studies that dealt with service quality measurement in the public service using the SERVQUAL instrument. In

addition, this instrument has also been used in different countries; these include: China (Lam, 2002); Cyprus (Arasli, Katircioglu & Mehtap-Smadi, 2005; Arasli, Mehtap-Smadi & Katircioglu, 2005); Australia (Baldwin & Sohal, 2003); the United States (Jiang, Klein & Crampton, 2000; Pitt, Watson & Kavan, 1995; Babakus & Boller, 1992; Kilbourne *et al.*, 2004); the UK (Kilbourne *et al.*, 2004; Pitt *et al.*, 1995); South Africa (Van der Wal, Pampallis & Bond, 2002); Korea (Kettinger, Lee & Lee, 1995); and The Netherlands (Kettinger, Lee & Lee, 1995).

Although existing quality frameworks are not directly appropriate for BPO, previous studies on quality measures are useful in developing a more accurate quality dimension for BPO industry. (Grover *et al.*, 1996) explained that outsourcing involves the quality expectations of both the service provider and the service receiver, and that service quality is measured with tangibility and reliabilities. Additionally, (Ma *et al.*, 2005) implemented an exploratory study on service quality of ASPs and identified seven factors to measure service quality: features, availability, reliability and assurance, empathy, conformance and security.

### **2.3.7 Criticisms of SERVQUAL Model**

The SERVQUAL instrument for measuring service quality has been subjected to a number of criticisms. Most research studies do not support the five-factor structure of SERVQUAL put forward by (Parasuraman *et al.*, 1988), and administering expectation items is also considered unnecessary (Carman, 1990; Babakus & Boller, 1992). In addition, Cronin & Taylor, 1992) have developed their own performance-based measure, the SERVPERF. In fact, the SERVPERF scale is the unweighted perceptions components of SERVQUAL, which consists of 22 perception items thus excluding any consideration of expectations. In their empirical work in four industries, (Cronin & Taylor, 1992) found that unweighted SERVPERF measure (performance-only) performs better than any other measure of service quality, and that it has the ability to provide more accurate service quality score than SERVQUAL. They argue that current performance best reflects a customer's perception of service quality, and that

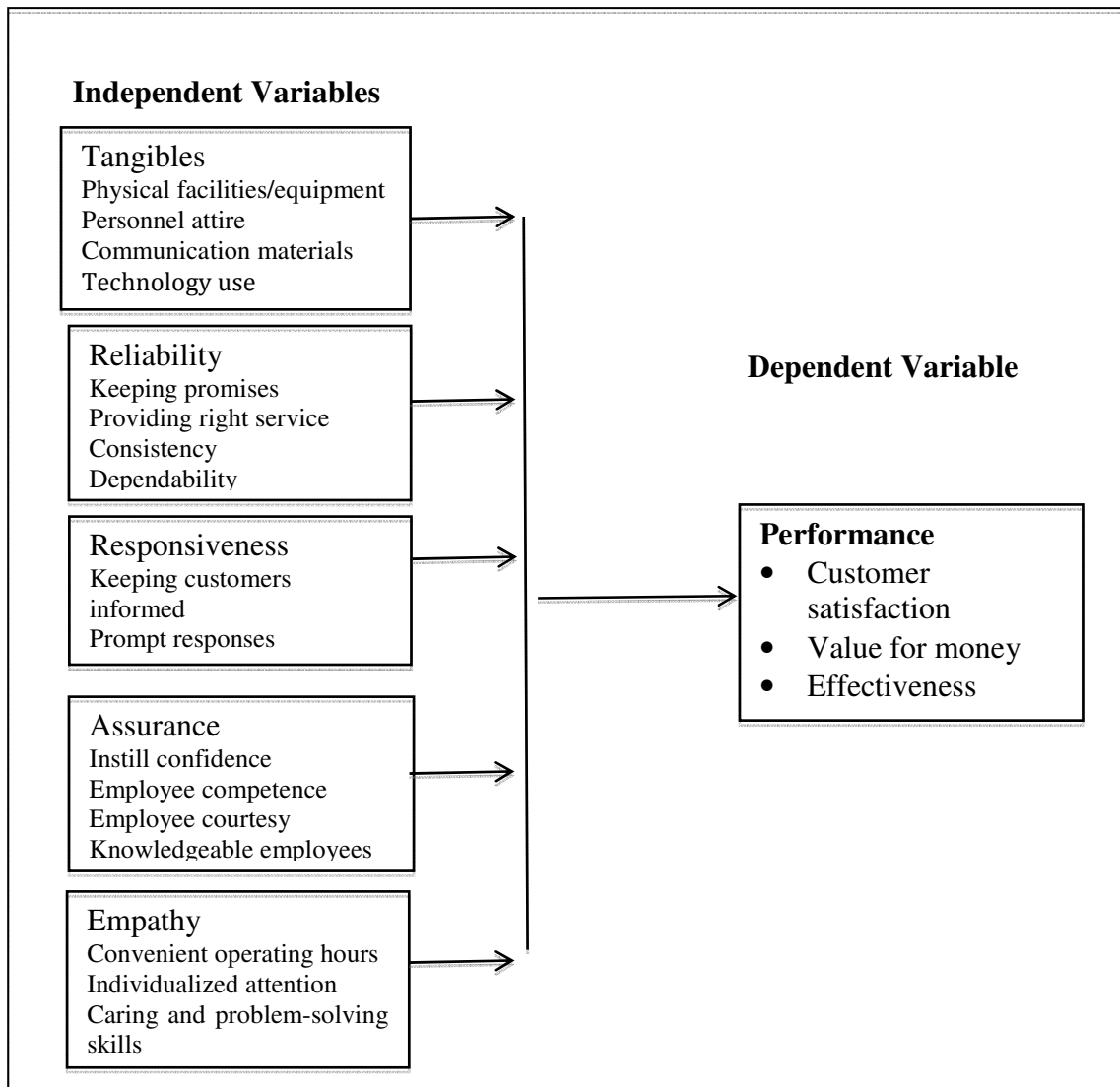
expectations are not part of this concept. Despite the criticisms, SERVQUAL has been used to measure service quality in a variety of contexts, including hospitals (Bakar *et al.*, 2008), universities (Galloway, 1998), police services (Donnelly *et al.*, 2006), banks (Kangis & Passa, 1997), travel agencies (Luk, 1997) and public utilities (Babakus & Boller, 1992). The wide array of application of such an instrument as SERVQUAL spells confidence in its utilization as a technique for measuring service quality in various business sectors and service industries.

Although some studies did fail to support its structure, (Parasuraman *et al.*, 1993) defended the use of the different dimensions, based on conceptual and practical grounds. (Parasuraman *et al.*, 1988) noted that even if it may be necessary to reword or modify some of the items, yet the SERVQUAL scale is applicable in a wide range of business services. However, (Parasuraman *et al.*, 1991) cautioned that the addition/deletion of items and/or dimensions may result in the loss of the scale's integrity.

## **2.4 Conceptual Framework**

Below is the graphical representation of the relationship between the independent, intervening and the dependent variables. Immediately after the conceptual framework figure is the empirical review of the independent and dependent variables.





**Figure 2.3: Conceptual Framework**

### **2.4.1 Outsourced Public Service Provider’s Tangibles and Performance**

According to (Rowley, 2006), tangibles “refer to the product’s physical properties and the extent to which it can be seen, felt, heard, tasted or smelt”. (Parasuraman *et al.*, 1985) define the tangibility as appearance of physical facilities, equipment, personnel, and written materials. Tangibles involve the firms’ representatives, physical facilities, materials, and equipment as well as communication materials. Furthermore, Physical environmental conditions appeared as a clear evidence of the care and attention paid for

the details offered by the service provider (Fitzsimmons & Fitzsimmons, 2001). Tangibles refer to those things which have a physical existence and can be seen and touched. In context of service quality, tangibles can be referred to as Information and Communications Technology (ICT) equipment, physical facilities and their appearance (ambience, lighting, air-conditioning, seating arrangement); and lastly but not least, the services providing personnel of the organization (Blery *et al.*, 2009). The tangible factors including physical environment have some effects on consumers in service organizations as well as employees.

Bitner (1992) suggested three different environmental dimensions: surrounding condition, spatial layout and functionality and signs. While surrounding conditions can include temperature and music, spatial layout and functionality may include furniture and the layout features. Signs may include symbols, artifacts, signage and style of decor. All of these dimensions are supposed to create an overall perceived servicescape that activates internal cognitive, emotional and physiological responses with customers and employees (Bitner, 1992). Servicescapes are “the built environment (the manmade, physical surroundings as opposed to the natural or social environment)” (Bitner, 1992). (Ransley & Ingram, 2001) argued that good design can lead to greater profitability and they proposed a mathematical equation called the design efficiency factor to demonstrate this concept. According to (Wakefield & Blodgett, 1999), “the tangible physical surroundings may more directly influence consumers’ affective responses”. So, the environment with all its components mentioned above is a key factor which has a great influence on people’s feelings, which is one of the reactions that encourage and force people to remain in the place where they are in or to leave (Russell & Ward, 1982).

Physical aspects of retailer include appearance of equipment and fixtures, physical facilities, materials associated with the service, appearance of personnel and communication materials, Convenience of physical facilities and layouts. In addition to the appearance of the facilities, it also takes into account the convenience offered the customer by the layout of physical facilities (Ananth *et al.*, 2011). The more customers appreciate on the physical aspects, the higher the overall evaluation of retail service

quality is (Bellini *et al.*, 2005). (Angur *et al.*, 1999) found that business premises should have a high standard of decoration and a nice environment to positively influence service quality, which will consequently lead to customer loyalty. Bitner (1992) focused on the elements under the control of businesses at the point of interaction between customers and the firm, arguing that these controllable elements can affect perceptions of service quality and encourage repeat patronage.

Bitner (1992) proposed that the physical setting of the place of service, including not only visual aspects such as color and texture, but also noise, odors, and temperature is of particular importance and capable of altering customer expectations and strongly influencing consumer responses and satisfaction. Bitner (1992) called the combined physical and sensory elements of the place of service the servicescape. Wakefield and Blodgett (1996) also found that servicescape in terms of layout, aesthetics, electronic displays, seating, and cleanliness on consumers' perceptions of service quality has a relatively consistent and strong effect on customer retention and their repatronage intentions. They noted that the strongest element in the perception of service quality was the "aesthetic appeal of the facility architecture and décor," remarking that customers' first impressions of the facilities influence their overall assessment of the services.

Bonn and Mathews (2007) also found substantial evidence that the design of the physical setting and its associated sensory attributes can have a significant effect on customer satisfaction and on a customer's re-patronage decisions. Moreover, the cognition emotions and behavior of people can be greatly, and powerfully influenced by the physical environment (Russell & Ward, 1982; Spangenberg, Crowley & Henderson, 1996). Berry and Parasuraman (1991) suggested that consumers develop their understanding of the relationship between the environment of a given service and the 'quality' of the service they may expect to receive. In addition, it has been confirmed that consumers depend on the physical and tangible evidence to which they have access to give evaluation of the quality of the intangible service components (Namasivayam, 2004). Jabnoun and Al-Tamimi, (2003) found that banks with better ambience enhance customer satisfaction in a better way. (Zineldin, 2005) found that by combining tangible

and intangible attributes of premium quality in products and services provided by banks, they might create a strong and long-term relationship with their customers. Service quality has linear relationship with success and profitability of business. General Electric (GE) has invested heavily in quality service and in return they earned huge profits every year. GE considered both tangible and intangible aspects of service quality equally important in the success of organization (Tax & Brown, 1996).

Physical evidence refers to the environment in which the service is delivered and where the firm and the customer interact and also any tangible commodities that facilitate performance or communication of the service (Zeithaml & Bitner, 1996). This demonstrates that the physical evidence of a health care service production process can influence the service experience. (Parasuraman *et al.*, 1988) describe tangibility in SERVQUAL as the “solid” dimension used to assess service quality, while (Santos, 2002) refers to tangibles as the tangible elements of a service and includes aspects such as the appearance of physical facilities, tools and equipment, personnel, and communication material.

Boshoff and Gray (2004) investigated the relationship between service quality, customer satisfaction and loyalty (as measured by purchasing intentions) among patients in the private health care industry in South Africa. The study revealed that the service quality dimensions of nursing staff empathy, assurance and tangibles, impact positively on patients’ loyalty. Satisfaction with the cleanliness of the hospital and the ward, neatness of the buildings, décor in the wards and appearance of the nursing staff will impact on loyalty. In this study, the importance of the cleanliness of the hospital was confirmed. The ambient conditions of the bank greatly contribute to service quality. (Brady & Cronin, 2001) found that consumers react not only to products, but also to the features that accompany the product. They asserted that consumers make their purchase decision and respond to more than simply the tangible product or service being offered but respond to the total product. One of the most significant features of the total product is the place where it is bought or delivered. Atmospherics relates to the effort to design buying environments to produce specific emotional effects in the buyer that enhance his

purchase probability. In some cases, the place, more specifically the atmosphere of the place, is more influential than the product itself in the purchase decision. In some cases, the atmosphere is the primary product. They called this “atmospherics” or “the effort to design buying environments to produce specific emotional effects in the buyer which enhance his purchase probability.”

The professional appearance of staff is an important means of tangibilizing the intangible service products. Furthermore, the tangibles of a service or service provider can be represented by the physical appearance of employees and other physical infrastructures. This has also seen the introduction of a dress code or uniform for bank employees across the country (Kim & Jin, 2002). These are moderated by personality traits and situational factors. The internal responses of the customers of the hotels subsequently affect their behavior in terms of staying longer, returning to the same site, or avoidance. Hirschman and Holbrook (1982) reached a similar conclusion on the importance of ambient conditions, finding that sensory input associated with a product led to emotional arousal and caused consumers to recall the product or the events surrounding their interaction with the product or to imagine a sequence of future events. In some cases, this sensory input was recalled more clearly than was the product itself and the emotions triggered were of greater importance than the utility of the product in customers’ ultimate choice of products. Atmospheric clues affect consumer moods and emotions, which, in turn, affect purchase behavior and response to products (Jiang & Wang, 2006).

The other tangibility aspect is the interior design of premises and facilities. The interior design of the premises and facilities influence customers’ perception of service quality, customer satisfaction, and loyalty. Studies on the influence of the physical interior design of the facility on service quality, customer satisfaction and patronage decisions are in support of this finding. Sherman *et al.* (1997) confirmed that the interior environments were important determinants of purchase behavior. Kalcheva and Weitz (2006) found that the interior environment of business settings had an impact on consumer purchasing behavior, particularly on re-patronage intentions or decisions.

Gardner (1985) also examined those aspects of the service environment under marketer control and found that the interior environment had the potential to influence consumers' mood states in both service encounters and point-of-purchase situations.

Gardner noted that the interior design correlated with customers' moods and found "evidence to indicate that design-related factors can have powerful effects on human behavior. She concluded that the interior design environment ("settings") is an important aspect of consumers' mood states and their ultimate evaluations of and responses to their service encounters. Le Bel (2005) Berry *et al.* (2006) explored the relation between emotion and perception of service quality with specific reference to the service facility and concluded that the interior environment can create mood or trigger feelings, which in turn affect behavior, customer satisfaction, and perceptions of service quality. The interior environment can influence customer emotions especially in extended service transactions (Berry *et al.*, 2006). Baker and Cameron (1996) identified three environmental components involved in waiting: ambient elements (non-visual sensory input), design elements (visual components), and social elements (the people in the service setting). The authors found that bright lighting, uncomfortable temperature, fast or loud music, oversaturated and warm colors, uncomfortable seating, and glare create negative emotions and cause customers to overestimate wait times. Conversely, lower lighting levels, temperatures within a comfort range, soft and slow music, light and cool colors, and comfortable seating created positive emotions and caused customers to underestimate wait times. They concluded that the interior environment could enhance the consumer experience in extended service interactions by creating positive emotions and reducing negative emotions.

A study by (Reimer & Kuehn, 2005) supported this finding. They found that customers look for other indications of quality to form pre-purchase evaluations of the service. All elements of the interior environment, including the physical setting and ambient conditions, function as service clues that give customers an indication of the quality of the service to be received (Reimer & Kuehn, 2005) and become important in determining customer loyalty

#### **2.4.2 Outsourced Public Service Provider's Reliability and Performance**

Reliability is defined as the “ability to perform the promised service dependably and accurately” (Parasuraman *et al.*, 1988,). Reliability means the ability of a service provider to provide the committed services truthfully and consistently (Blery *et al.*, 2009). The reliability construct in the SERVQUAL model represents the service provider's ability to perform the promised service dependably and accurately. This is achieved through keeping promises to do something, providing right service, consistency of performance and dependability, service is performed right at the first time, the company keeps its promises in accuracy in billing and keeping records correctly, available merchandise and error-free sales transactions and records. Reliability also consists of accurate order fulfillment; accurate record; accurate quote; accurate in billing; accurate calculation of commissions; keep services promise. He also mentioned that reliability is the most important factor in banking services (Yang *et al.*, 2003). The higher customers appreciate on reliability, the higher the overall evaluation of retail service quality is (Ndubisi, 2006). Reliability depends on handling customer service issues, performing the services right the first time; offering services on time, and maintaining of error-free records.

Moreover, reliability is defined as the most significant factor in conventional service (Parasuraman *et al.*, 1988). (Yang *et al.*, 2004) argues that reliability is the most significant factor in banking services More specifically, in a study by (Parasuraman *et al.*, 1985), SERVQUAL was applied to gather data in four different companies, including banks, credit card companies, the company's maintenance services, and long-distance phone company. He found high reliability in all four of these companies, with the possible exception of some of the values associated with significant dimensions (Parasuraman *et al.*, 1985). According to (Singh, 2012), reliability refers to three important factors that is accessibility, continuity and performance. Accessibility is the most important aspect, which means that the service is available whenever it is required and desired. The second important thing is continuity which means that the service continues to be available and up to the required standard. Maintenance of standard is

imperative for adhering to the continuity factor. If the service is not continuously reliable, there is a chance that customer will not trust its reliability and will switch to the other service providers (Zeithaml *et al.*, 2009). The third factor refers to performance. It includes high quality service delivery and exceeding the customers' satisfaction thus gaining their loyalty for longer time (Arslan *et al.*, 2015).

The construct of reliability measures the firm's ability to deliver the service that has been promised to customers accurately, and without error (Huang, 2009; Vázquez *et al.*, 2001). This implies that the outsourced public service provider must practice a philosophy of getting it right first time, all the time. The service provider must be able to keep their promises, meet deadlines and provide timely and accurate information to customers (Newman, 2001). The strategic public service provider must bill the customers correctly for the services offered. Accurate information includes clear product pricing, as well as correct and precise information regarding the product (Vázquez *et al.*, 2001). Furthermore, reliability also refers to the public service provider being able to have merchandise available when required. Operational merchandise including trash collection bags, trash disposal bins amongst others should always be available in plenty whenever customers demand them. Interviews conducted by (Dabholkar *et al.*, 1996) revealed that customers view reliability as a combination of keeping promises and 'doing it right'. In the strategic outsourced public service provider's office environment, limited availability of stock or long queues for the cash register refers to a lack of reliability on behalf of the service provider. It has been proved that lengthy waits for the cash register can result in consumers developing negative perceptions and decreased customer satisfaction (Rigopoulou *et al.*, 2008; Grewal, 2003). According to (Zinn & Liu, 2001), a stock outage can result in the consumer leaving the store and forgoing the purchase to search for the item elsewhere. Furthermore, in the long run, continuous stock outages could have a negative impact on future patronage, and result in detrimental perceptions and negative word of mouth (Grant & Fernie, 2008). □



### **2.4.3 Outsourced Public Service Provider's Responsiveness and Performance**

Responsiveness is defined as "the willingness to help customers and provide prompt service"(Parasuraman *et al.*, 1988). It also contains understanding the needs and requirements of the customer, easy operation time, and individual attention provided by the staff, attention to the problem and customers' safety in their dealings (Kumar *et al.*, 2009). Responsiveness is the determinant that defines the willingness to help customers and to provide prompt services. It is the desire and willingness to assist customers and deliver prompt service .It involves features such as the opening hours of the service provider, the politeness of the employees and the time the customer has to wait in order to get the service. In other words, it describes how quickly and affective the response to the customer is. Willingness to help customers is likely to have an important and positive effect on customer' perceived service quality and customer satisfaction in public service. (Mengi, 2009) also found that responsiveness is positively related to service quality and customer satisfaction. It is also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers' safety in their transaction (Kumar *et al.*, 2009).

Customers are concerned whether their public service provider will provide the right information to the right customers promptly. This is creates public confidence, and thus helps customers to make the right decisions at the right time. Responsiveness is likely to have an important and positive effect on perceived quality of service (Glaveli *et al.*, 2006). The higher customers appreciate problem solving, the higher overall evaluation of retail service quality is. Responsiveness is the readiness of outsourced public service providers in county governments to provide punctual services as perceived by county government customers. The adequacy of personnel and facilities are also aspects of responsiveness that influence service quality perceptions. They affect the time taken by the business to the deliver the service. Waiting time is a part of many service encounters and can influence service quality perceptions (Taylor, 1994; Baker & Cameron, 1996; Brady & Cronin, 2001). (Taylor, 1994) and (Le Bel, 2005) found that in extended service transactions, where customers interact with service providers over long periods

of time, emotions are of paramount importance and emotions generated at one stage in the service experience may influence customers' perceptions of later stages of the process (Dube & Menon, 2000). When customers perceive waiting time as favorable, they perceive the service quality to be higher (Brady & Cronin, 2001). When they perceive waiting time as too long or too short, their evaluation of service quality declines (Taylor, 1994).

Barsade and Gibson (2007) argue that managers need to know the how and why of work characteristics with multi-management design, because service work characteristics can influence employee emotional organizational behavior and then, influence customers' response (Brotheridge & Lee, 2003). Their argument thus, illustrates not only the importance of exploring service responsiveness, but also following another important research direction- "employee's emotion management" (Homburg *et al.*, 2007; Jayachandran *et al.*, 2005; Wegge *et al.*, 2006). Numerous scholars discuss employee's emotion management with "emotion contagion" or "emotional labor" (Brotheridge & Lee 2003; Hochschild, 1983); this study discusses employee emotion management by "social emotion" perspective based on two reasons: social emotion is connected with inter-personal relationships; and front-line employees are a medium for delivering products or services, consistency business value to customers via service encounters (Bagozzi, 2006). When Homburg *et al.*, 2007) observed culture and emotion in the service and manufacturing business, they discovered that service system can influence employee response behavior in internal business environments and is also the key determinant of organizational responsiveness (White *et al.*, 2003). For instance, the support of service responsiveness in internal environment and teamwork can enhance employee cohesion and thus, promote customer service (Deeter-Schmelz & Kennedy, 2003).

Wegge and Neuhaus, 2002) surveyed college employees and indicated that, work pressure and negative emotion are positively correlated. (Price *et al.*, 1995) argued that emotional work arouses role pressures and conflicts. In emotional contagion theory, individuals exhibiting positive (negative) emotions can encourage others to exhibit

similar emotions. McHugo *et al.* (1985) demonstrate that, when employees provide service with a smile, they positively influence customer cognitions, behaviors and attitudes. (Lyubomirsky *et al.*, 2005) adopted meta-analysis to examine the relationships among employees' positive emotions, mood and work performance. The research results indicated that, when employees exhibit positive motions or mood, the results revealed more positive evaluations of his/her manager, enhanced communication ability and increased profits or organizational level. (Wegge *et al.*, 2006) also indicated that, positive work emotions are positively correlated with job satisfaction. The presumed mechanism for this effect was that positive emotional displays by employees increased customer willingness to return to the store and provide positive feedback to others.

#### **2.4.4 Outsourced Public Service Provider's Assurance and Performance**

Assurance is developed by the level of knowledge and courtesy displayed by the employees in rendering the services and their ability to instill trust and confidence in customer (Blery *et al.*, 2009). The assurance construct extends to the competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), credibility and security of the employees and their ability to inspire trust and confidence. It is believed that if the employees of financial institutions display trustworthy behavior, the satisfaction level of customers can be enhanced significantly.

According to (Sadek *et al.*, 2010), in British banks assurance means the polite and friendly staff, provision of financial advice, interior comfort, ease of access to account information and knowledgeable and experienced management team. This includes employees having knowledge to answer questions, inspiring confidence, providing prompt service, willing to respond to customer's requests, giving customers individual attention, showing consistent courtesy with customers and even treat customers properly on the phone.

Several studies suggest that the exchange of information is an important part of both traditional selling and relationship marketing which may lead to a shared understanding (Ndubisi, 2006; Lympelopoulos *et al.*, 2006). The more customers appreciate personal interaction, the higher the overall evaluation of retail service quality is.

Assurance may also positively influence repurchase intention of customers (Ndubisi, 2006; Ndubisi & Wah, 2005). This dimension concerns how knowledgeable and courteous employees are to inspire confidence and trust from their customers. The assurance attributes are all very much about the extent to which a consumer trusts a provider and whether or not they have the confidence in an organization to provide a service securely and competently. The courteous nature of the service provider's staff also influences the customer's assessment of service quality. The politeness of the employees is an important attribute for evaluating service quality because of the heavy interactional nature of the service. Often, customers demand politeness of employees as an interactional expectation. The extensive contact and interactions between the customer and the employees makes it a key variable for service quality.

The inseparability of production and consumption and the co-production of services (Grönroos, 1990) implies that the people providing the public service play a significant role and therefore the perceptions of the assurance dimension will influence the overall perceived service quality. Public health care is a high involvement service and all contact between health practitioners and patients is important and complex (Bansal, 2004). (Parasuraman *et al.*, 1991) included actions by employees such as always courteous, behavior instills confidence, and knowledge as prime elements of assurance.

On the aspect of the feeling of safety when transacting with the public service providers, customers are concerned or interested in security issues regarding on-line, credit card, telebanking, and Internet etc. transactions. Security and safety are ranked highly in measuring service quality and consequently customer loyalty. Customers have high expectations regarding feeling safe and secure whilst making transactions. This may be attributed to the nature of the services provided by outsourced public service providers.

Customers face much greater risk in terms of fraud and identity theft when dealing with private public service providers. This may explain the fact that county governments need to do all they can to assure their customers that transactions with their strategically outsourced public service providers are safe and secure.

On whether employees always instill confidence in their customers, it is important to acknowledge the fact that customers want to trust and have confidence in the competence of the service provider's employees to deliver the service. The customer will not be satisfied if he/she does not feel assured about the competence of the service provider. (Kumar *et al.*, 2010) and (Lai, 2004) found that confidence is one of the important factors for assurance. As confidence in one's impressions about the firm increases (Verhoef *et al.*, 2002), trust develops between the parties (Gwinner *et al.*, 1998), and the cost of switching firm rises (Shapiro & Varian, 1999). Moreover, customers weigh prior cumulative satisfaction heavily when they are deciding whether to maintain or terminate their relationship with the bank (Bolton, 1998). These aspects favor the continuity of the relationship, so that we can expect a greater propensity to switch.

#### **2.4.5 Outsourced Public Service Provider's Empathy and Performance**

Empathy means taking care of the customers by giving attention to them at individual level (Blery *et al.*, 2009). Parasuraman *et al.*, 1985) defined empathy as a caring and individual attention that the firm provides to its clients. The term empathy is defined as "the capability of visibly defined project for the trust of others, to attain and visualize the appropriate assessment of other's beliefs, attitudes and behavior" (Bush *et al.*, 2001).

Empathy is reflected in the service provider's provision of access, communication and understanding the customer. Individual attention, convenient operating hours, understanding of the staff when a problem occurs and the knowledge the employees have of the customers' needs were the primary elements included in the evaluation of empathy. Empathy was considered as the response of persons towards the acknowledged

experiences of others (Davis, 1993), (McBane, 1995). This illustration specifies two wide ranges of responses; the cognitive and logical response that is considered as the expertise to be familiar with thinking, emotions and objectives (Homburg & Stock, 2004). Second range of empathy describes the psychological response to others. The first aspect of empathy that is cognitive has been broadly accepted regarding studies of marketing (McBane, 1995). The previous findings conclude that this aspect can directly be associated with buyer seller relations (Bush *et al.*, 2001). Consequently, the cognitive aspect of empathy can facilitate to highlight the significant relation of empathy between work satisfaction and consumer satisfaction.

(Ananth *et al.*, 2011) demonstrated empathy in their research of private sector banks; arguing that empathy provides individual attention and easy operation time; gives personal attention, and understand the specific needs of customers. (Fitzsimmons & Fitzsimmons, 2001) suggest that empathy contains approachability, sensitivity, and efforts to understand customer needs. Also, (Johnston, 1997) defined empathy as the ability to make customers feel welcome, especially by staff contacts. Additionally, the SERVQUAL model indicates that satisfaction is related to the size and direction of disconfirmation of a person's experience when he/she faces his/her initial expectations (Parasuraman, Zeithaml & Berry, 1985; Smith & Houston, 1982). A positive and significant relationship is found between empathy and customer satisfaction by (Iglesias & Guillén, 2004). Wieseke *et al.* (2012) empirically investigated the role of empathy in service quality and its impact on customer satisfaction. It was established that customers treated emphatically are more often visitors and prone to forgive any mistakes that may occur. Empathy creates an emotional relationship with customer, providing customer a touch of importance for business. (Karatepe, 2011) explored the service environment impact with empathy and reliability on loyalty. Empathy works as a moderator between quality and customer satisfaction. Empathy can change the behavior of customer ultimately. The aspects that are critical in empathy include employees' knowledge to respond to customer requests or needs. Strategic public service providers need to invest heavily on staff training so as to equip them with the necessary knowledge and skills to

deal with their customers. On the employees' personal attention to their customers, marketing literature indicates that service providers that provide individualized attention to their customers increase their level of perceived service quality. This is due to the high intangibility of the service and the heterogeneity of it results in an increased focus on the interaction process. This means that employees must be skilled enough to be able to immediately recognize that needs of the customers are critical in order to improve service quality.

The significance of empathy in buyer-seller interaction has been accepted in emotional (Davis, 1983), (Hogan & Hogan, 1984) and marketing related studies (Comer & Drollinger, 1999). In this perspective, mostly results were linked with the influence of empathy on interactions with consumers (Comer & Drollinger, 1999). The experimental studies conclude that there is positive relationship between empathy and interactional procedure of workers and consumers (Boorom *et al.*, 1998; Castleberry & Shepherd, 1993) and these interactions stimulate better relations (Comer & Drollinger, 1999). Hence, lower levels of worker empathy leads to weaker interactional level between workers and consumers and that lead to less customer satisfaction. Furthermore, the variable of empathy plays a mediating role between the job satisfaction of workers and customer satisfaction.

The greater degree of empathy of salespersons stimulates the relation of job satisfaction of salespeople and consumer satisfaction (Homburg *et al.*, 2007). This dimension captures aspects of service quality that are directly influenced by service provider's policy such as good customer service, convenience of parking and operating hours (Butcher, 2001; Ndubisi, 2006; Ehigie, 2006). The degree to which the customer feels the empathy will cause the customer to either accept or reject the service encounter. The higher the level of empathy, the higher the overall evaluation of retail service quality is.

#### **2.4.6 Performance in the Public Sector**

Defining performance in the public sector requires the existence of a relationship between objectives, means and results, so performance is the result of the simultaneous exertion of efficiency, effectiveness and of a proper budgeting (Profiroiu, 2001). Performance in the public sector describes the results of an activity in a specific area or aggregate results from several or all activity fields of a public body, being measured either in absolute terms (as an index) or in relation to the results achieved in the previous periods (Handler *et al.*, 2004).

Establishing the performance of a public organization can be a difficult task, caused by the difficulties that exist in defining performance: the first difficulty arises from the meaning of the concept of performance; the second from the method of obtaining the performances and the third from the performance evaluation. The difficulty of objectively measuring performance in the public sector is driven by the complexity and multidimensional nature of the concept (Boyne *et al.*, 2006). Researchers have identified the following causes of the difficulties of defining and measuring performance in the public sector: typology of public sector entities; diversity of perception of performance; informational asymmetry of the users of information concerning performance; nature of the offered public service; complexity of the economic-social environment; ascendant trend of consumers; discrepancy between the number of consumers and the one of contributors towards the establishment of public resources; managers' low interest for identifying new financing sources; real non-existence of the correlation financial performance – non-financial performance, respectively the influence of the political system (Stefanescu *et al.*, 2010).

In the paper "The analysis framework of the public sector performances", Profiroiu and Profiroiu have illustrated, from a theoretical point of view possible methods for measuring the performance of a public organizations, namely: measuring the economy of resources; measuring the costs (input); measuring outputs; measuring the effects (outcomes); measuring efficiency; measuring effectiveness; measuring the quality of



services (Mihaiu, 2014). Current systems for measuring performance in the public sector present some limitations because they are based only on efficiency, effectiveness and economy indicators, which are mainly financial that fail to measure the fulfillment of environmental and social objectives of the public organizations (Mihaiu, 2014). A solution for this is the transition from the system of the "3 E's" (effectiveness, efficiency, economy) to a system of the "5 E's": Economy, Efficiency, Effectiveness, Environmental and Equity (Chai, 2009).

The scope of service performance indicators for public services is defined in the output specification provided for service delivery, which incorporates the needs of public and the responsibilities of outsourcing vendors. According to (Gruneberg *et al.*, 2007), the output specification focuses on what the public needs rather than its inputs or what is required in terms of standards of quality over a wide range of services. Therefore service-level performance in the context of this study is the group of measurable subjective attributes of public services, which an organization such as the county government can use to track performance. Traditionally, researchers have focused on three major criteria of cost, time and quality (Swan & Khalfan, 2007) as benchmarks for assessing performance of projects.

Several performance indices have been developed for measuring service delivery in the literature. These include quantity of outputs, quality of outputs, efficiency, equity, outcomes, value for money and consumer satisfaction (Boyne, 2003). In an effort to develop a performance model that aligns with the strategic aim of social service delivery, (Brackertz & Kenley, 2002) introduced the Service Balanced Score-card (SBS) model. The model uses performance metrics to specifically provide insight into performance of an organization from a 'service' perspective. It is evaluated from four perspectives, namely services, financial, community/customer and scope of coverage. Brackertz and Kenley (2002)'s model typically aligns with the philosophy behind this study as it captures the various performance parameters that are associated with outsourcing of services from a public sector perspective. Besides this, it takes into consideration the stakeholder groups associated with services rendered by public sector

organizations. These include the end-users, the service providers who manage and provide the services, the facility managers who oversee the activities of the service providers on behalf of management and the senior management who formulate and make strategic policy decisions about facilities and related services.

It is the view of this study as confirmed in literature (Boyne, 2003) that public services such as public services offered at county government level have tangible elements such as quantity, quality, speed of delivery and effectiveness that are likely to be valued by all constituencies, even if the valuations differ between groups or over time. Therefore this research uses perceived service quality, customer satisfaction and scope of service delivery as indicators for measuring organizational performance.

In order to examine the impact of outsourcing on performance, a number of past studies in the literature have identified the increasing importance of outsourcing as a strategy for improving performance through value creation in organizations. For example, in a study to investigate the effects of outsourcing on a firm's operational performance, Jiang *et al.* (2006) used a sample of 51 publicly traded firms that outsourced parts of their operations between 1990 and 2002 to test three hypothetical theories of firm performance. They are cost efficiency, productivity and profitability. Jiang *et al.* (2006) found that outsourcing significantly impacts on the cost efficiency of these firms while there was insufficient evidence to support the theory that firms that outsource operations obtain significant impact on their productivity and profitability. Before this, (Gilley & Rasheed, 2000) had examined the extent to which outsourcing of both peripheral (non-core) and near-core tasks influences both financial and non-financial performance of firms. Findings from the study revealed that there is no direct effect of outsourcing intensity on firm-level performance. This agrees with the assertion of the authors that the findings should not be interpreted as being that outsourcing has no impact whatsoever on firm performance. This is because there is a clear distinction between firm-level performance and product or service-level performance. While there may not be a direct impact of outsourcing on firm-level performance, it may not be the case for the individual product or service being outsourced by the firm.

In yet another study, (Pouder *et al.*, 2011) examined how two outsourcing motives, namely cutting costs and strategic advantage, affect firm performance. Results of the study show that on the one hand, both cost reduction and strategic motives have a positive and significant impact on firm value, while on the other, focusing on core competence creates a significantly greater increase in firm value than not doing so. The indication is that choosing outsourcing as a strategy for improving performance without using cost cutting and strategic advantage as decision factors will not improve performance. Bustinza *et al.* (2010) argue that there is no direct relationship between outsourcing and firm performance. Instead, the benefits of outsourcing are conveyed through the impact they have on the organization's competitive advantage, which then contributes to performance.

## **2.5 Empirical Review of the Variables**

Ramseook-Munhurrun *et al.* (2010) carried a study to obtain a better understanding of the extent to which service quality is delivered within the Mauritian public service by drawing on front-line employees (FLE) and customer perceptions of service quality. The paper investigated how closely customer expectations of service and FLE perceptions of customer expectations matched. The SERVQUAL instrument was adopted to measure the quality of customer service as it demonstrated the "gap" between the customers' expectations and the perceptions of FLE of the customers' expectations. This research was carried out in one of the public sector departments in Mauritius. The major function of that public department is to ensure that laws regulating road transport are enforced in order to sustain the social and economic activities of the country. This public department has sub-branches all over the island, and its Head Office is found in Port Louis, the capital of Mauritius. Non-probability convenience sampling was used for data collection purposes. Customers who were leaving the public department were intercepted and those who were willing to participate in the survey were given a questionnaire to fill. Finally, during the second and third weeks of August 2008, a sample size of 250 was targeted and 202 questionnaires from the customers were judged usable for data analysis for this study, giving a response rate of 81%. The study findings reveal that while there is a

significant shortfall in meeting customer expectations, the FLE appears to have a good understanding of what these expectations actually are. The FLE should focus on those dimensions, which receive lowest ratings and attributes with high gap scores. According to Parasuraman *et al.* (1988) it is however common for consumer's expectation to exceed the actual service perceived and this signifies that there is always need for improvement.

Anderson (1995) measured the quality of service provided by a public university health clinic. Using 15 statements representing the five-dimensions of SERVQUAL (Parasuraman *et al.*, 1988), she assessed the quality of service provided by the clinic at the University of Houston Health Center. Patients were found to be generally dissatisfied with the five dimensions of SERVQUAL. The highest dissatisfaction was felt with assurance. On the other hand, tangibles and empathy exhibited the lowest level of dissatisfaction. Using the SERVQUAL approach, Wisniewski (2001) carried out a study to assess customer satisfaction within the public sector across a range of Scottish Councils services. In the library service, the analysis of gap scores revealed that tangibles and reliability had negative gaps, which indicate that customer expectations were not met. In addition to the appearance of the facilities, tangibles also take into account the convenience offered the customer by the layout of physical facilities (Ananth *et al.*, 2011). The more customers appreciate on the physical aspects, the higher the overall evaluation of retail service quality is (Bellini *et al.*, 2005). Bonn and Mathews (2007) also found substantial evidence that the design of the physical setting and its associated sensory attributes can have a significant effect on customer satisfaction and on a customer's re-patronage decisions. Berry and Parasuraman (1991) suggested that consumers develop their understanding of the relationship between the environment of a given service and the 'quality' of the service they may expect to receive. In addition, it has been confirmed that consumers depend on the physical and tangible evidence to which they have access to give evaluation of the quality of the intangible service components (Namasivayam, 2004). Jabnoun and Al-Tamimi, (2003) found that banks with better ambience enhance customer satisfaction in a better way.

(Zineldin, 2005) found that by combining tangible and intangible attributes of premium quality in products and services provided by banks, they might create a strong and long-term relationship with their customers.

On the other hand, responsiveness and assurance were positive implying that customer expectations were actually exceeded by the service provided. Furthermore, Donnelly *et al.* (2006) carried out a study to explore the application of SERVQUAL approach to access the quality of service of Strathclyde Police in Scotland. The survey captures customers' expectations of an excellent police service and compares these with their perceptions of the service delivered by Strathclyde Police. The paper also reports on a parallel SERVQUAL survey of police officers in Strathclyde to examine how well the force understands its customers' expectations and how well its internal processes support the delivery of quality services in the police department. It was found that Strathclyde Police appears to have a good understanding of the service quality expectations of their customers as represented by the responses of elected councilors in the area covered by the force. There is room for improvement in service quality performance both from the viewpoint of the customer and through police force attention to the definition of, and compliance with, service quality standards. Agus *et al.* (2007) carried out a research to identify management and customer perceptions of service quality practices in the Malaysian Public sector. It is important to note that whereas the SERVQUAL model focused on identifying "gaps" between expectations and actual delivery, their model focused only on perceptions of actual service delivery. They used nine of the ten service dimensions identified by Parasuraman *et al.* (1985). Their study looked at the perceptions of management and customers, thereby excluding the views of FLE. It is thus observed that most of the studies to date, have concentrated on service quality in US and European public service sector, while some more recent studies have looked at service quality in developing countries (Agus *et al.*, 2007).

### **2.5.1 Critique of the existing literature relevant to the study**

Many studies have been carried out on various aspects of public outsourcing in Kenya. (Gakii, 2010) carried out a study on challenges of implementing outsourcing in East Africa breweries. She found out that the organization needed to develop clear criteria on the choice of service providers. Boya (2010) carried out research on the implementation of the outsourcing strategy in cement manufacturing industry in Kenya. He established that the strategy had assisted in lowering the operation costs of the companies.

Kenyan State corporations are involved in outsourcing of both core and non-core activities (Awino & Mutua, 2014). This confirms that the corporations value BPO as one of the initiatives towards performance improvement. This disapproves the view by the competency based view that core activities should be retained in-house and only those functions that are non-core should be considered for outsourcing (Awino & Mutua, 2014).. Thus although found to be of insignificant impact, the outsourcing of core service by the Kenyan State corporations confirms as viable (Prahalad, 1990).

Overall, the study has established that BPO has a positive impact on firm performance. This clears the inconsistencies that had existed surrounding the relationship between BPO and firm performance and particularly regarding the impact of BPO on firm performance (Awino & Mutua, 2014). Maku and Iravo, (2013) investigated the effects of outsourcing on organizational performance at Delmonte Kenya limited The findings of their study shows that outsourcing has facilitated the organization's performance by helping to improve its focus on its core competencies/business that is Production and processing of fresh produce which has led to more innovation in these core activities and more resources have been freed to these activities. Additionally, the company made tremendous cost savings in terms of labour, operational cost and capital expenditures (Maku & Iravo, 2013). The company has also been able to access new and modern technologies such as those offered G4S surveillance services using the latest IT technologies (Maku & Iravo, 2013).

Bosire (2010) carried out a survey on impact of outsourcing on lead-time and customer service. The survey involved supermarkets in Kenya .The study found a positive correlation between outsourcing and lead-time but cited mistakes in implementing the strategy. Ikobe *et al.* (2013), in their study “Strategies to improve service delivery in local authorities in Kenya” found that the main strategies to improve service delivery were: increasing citizen participation in the affairs of the local authority and partnership with the community in service delivery, flexible response to service user complaints, offering value for money and ensuring that service users pay their bills on time, strategic public service planning, sound human resource policy that includes capacity building and employee motivation, managing change, dealing with corruption and improving accountability, segregation of duties between councilors and management of the local authorities, and partnering with other players and outsourcing services.

## **2.6 Research Gaps**

More than two decades ago (Surprenant & Solomon, 1987) stated that service encounters are human interactions. They suggested that customers and service providers have roles to play during and possibly after service encounters and that these roles are based on “interpersonal interactions” between organizations and customers. The perspectives of both the service provider and the service receiver thus intrinsically affect service quality in all service encounters. Similarly, (Czepiel, 1990) concluded that research on service quality must always include the perspectives of both the provider and the receiver. However, most research on the service quality construct has been restricted to one perspective: that of the service receiver (Parasuraman *et al.*, 1988). A few have applied dual perspectives and considered interactive features of service quality in service encounters (Tam & Wong, 2001; Chow-Chua & Komaran, 2002; Dedek, 2003; Svensson, 2004, 2006). It is against this backdrop that motivated the need for this study.

In Kenya researches on outsourcing include; Kinyua (2000) who concluded that companies needed to conduct careful analysis before engaging in outsourcing to minimize risks. Besides, Kirui (2001) concludes in his study that outsourcing of non-core logistics activities is triggered by the need to eliminate duplication of roles, efforts, and the dysfunction existing within the organization. In addition, Chanzu (2002) concluded that outsourcing is most prevalent in departments like human resource, finance, and information technology. On general outsourcing, Kenyan State corporations are involved in outsourcing of both core and non-core activities (Awino & Mutua, 2014). This confirms that the corporations value BPO as one of the initiatives towards performance improvement. Ndanga, (2013) researched on the perceived effect of quality management standards on service delivery at Nairobi City County. In another study, Waweru, (2014) focused on the impact of outsourcing strategy on service delivery in Nairobi City County. All these studies have focused on other aspects of outsourcing and service delivery. Other local studies done on service quality had focused on banking and public sector in general. For instance, Gachie (2008) investigated an evaluation of Service Quality focusing on Kenyan Commercial Banks, Momanyi, (2008) carried out a Survey of Service Quality Management Initiatives in the Public Sector focusing on case study of selected ministries in Kenya while Wambugu (2009) undertook a study on the influence of service quality on consumer preference in petroleum retailing in Thika District. None of the studies has addressed the contribution of the service provider's quality dimensions on performance. The focus of the study was to establish the contribution of outsourced service providers' quality dimensions on performance of Nairobi City County.

## **2.7 Summary**

This chapter reviewed the theoretical literature related to outsourced public service performance, service providers' quality dimensions and overall performance of Nairobi City County. Two related outsourcing theories which are, Core Competencies Theory and Resource-based



Theory are briefly discussed. Service quality is then discussed and two service quality models also explained. These models are Parasuraman *et al.* (1988) SERVQUAL model and Gronroos' Service Quality Model. The interactions of these theories help to explain issues within the concepts to simplify the interrelatedness.

The conceptual framework is also illustrated in this section with outsourced service providers' quality dimensions as given by Parasuraman *et al.* (1988) as reliability, tangibles, responsiveness, assurance, and tangibles adopted by the study to form the independent variables. Organizational performance as dependent variable completed the framework. Past studies related to the variables were analyzed and research gaps identified. The framework tries to understand the mechanisms with which outsourced service providers' quality dimensions may influence organizational performance through their underlings.

Majority of empirical literature reveal that all service quality dimensions influence service performance. Reliability plays a very important role in determining service performance. Reliability means the ability of a service provider to provide the committed services truthfully and consistently (Blery *et al.*, 2009). As Ndubisi, (2006) puts it, the higher customers appreciate on reliability, the higher the overall evaluation of retail service quality is the second dimension discussed is responsiveness. Responsiveness is the determinant that defines the willingness to help customers and to provide prompt services. It is the desire and willingness to assist customers and deliver prompt service. Mengi, (2009) found that responsiveness is positively related to service quality and customer satisfaction. Assurance dimension may also positively influence repurchase intension of customers (Ndubisi, 2006; Ndubisi & Wah, 2005). This dimension concerns how knowledgeable and courteous employees are to inspire confidence and trust from their customers. On the tangibles dimension, it has been confirmed that consumers depend on the physical and tangible evidence to which they have access to give evaluation of the quality of the intangible service components (Namasivayam, 2004).

The other dimension discussed is empathy. A positive and significant relationship is found between empathy and customer satisfaction by (Iglesias & Guillén, 2004). Wieseke *et al.*, 2012) empirically investigated the role of empathy in service quality and its impact on customer satisfaction. It was established that customers treated emphatically are more often visitors and prone to forgive any mistakes that may occur. Performance was then discussed and finally a critique of the relevant literature related to the study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter details the research design and methodology employed in the study. It covers the research design used in the research in terms of research procedures, the target population and sample size, which data collection methods used and how data was analyzed.

#### **3.2 Research Design**

According to Yin (2003) research design is the logical sequence that links the empirical data to a study's initial research questions; that is, the design discourages the situation in which the evidence is disconnected from the initial research questions. The research design employed in this study was descriptive survey design. According to Cooper & Schindler (2006), descriptive survey design discover and measure cause and effect relationships among variables. The study used a descriptive design because it enabled the researcher to collect in-depth information about the population being studied. The survey design to be used in this study is appropriate because data was collected from a cross-section of customers of the Nairobi City County.

#### **3.3 Target Population**

A population refers to an entire group of persons or elements that have at least one thing in common (Kombo & Tromp, 2006). Since the customer is the best judge of product or service performance, the target population comprised of registered businesses operating within Nairobi City County, who consumed essential public services from outsourced service providers, including liquid and solid waste management, fresh water supply and public parking management. The choice of registered businesses was also motivated by the ease of accessing them and approachability in information sharing. A county

government customer means any person, company, or organization, using services or products supplied by the County government. It includes individuals, corporations, partnerships, associations, and all other legal entities. The term ‘customers’ is employed to label those who deal with the agency at its ‘business end’ (Moore, 1995), as its ‘public-in-contact’ (Blau & Scott, 1963).

### 3.4 Sampling Frame

A population refers to an entire group of persons or elements that have at least one thing in common (Kombo & Tromp, 2006). Since the customer is the best judge of product or service performance, the target population comprised of mainly residents and businesses operating within Nairobi City County, who consumed essential public services from outsourced service providers, including liquid and solid waste management, fresh water supply amongst other key services. These are mainly businesses within Nairobi City County whose total as of 2014 were 157,460 registered businesses (Department of Trade and Licensing, Nairobi City County, 2015).

**Table 3.1: Trading Centers and Licensed Businesses by Broad Category, 2014**

<b>Category</b>	<b>2014</b>
<b>Licensed Businesses</b>	
Licensed Retail Traders (excl. Supermarkets)	
Supermarkets (Incl. branches)□	133,049
Licensed Wholesale Traders□	522
Licensed Hawkers	28
Registered Hotels□	543
Petrol Stations□	282
Licensed Liquor Outlets	774
Informal Enterprises□	2323
Other Licensed Businesses	563
	19,376
<b>Total</b>	<b>157,460</b>

Source: Department of Trade and Licensing, Nairobi City County \*Provisional, 2015

### 3.5 Sample and Sampling Techniques

Slovin’s formula was used to calculate the sample size. The choice of Slovin’s formula was because it allows the researcher to sample the population with a desired degree of accuracy (Stephanie, 2013).

$$n = N / (1 + Ne^2) \dots\dots\dots \text{Equation 3.1}$$

where

**n** = is the desired sample size

**N** = is the population size

**e** = margin of error (at 95% confidence level)

Therefore, sample size was given as:

$$n = 157,460 / (1 + 157,460 (0.05)^2)$$

$$= 399 \text{ respondents} \dots\dots\dots \text{Equation 3.2}$$

**Table 3.2: Sample Size**

<b>Licensed Businesses</b>	<b>Total Number</b>	<b>Population Percentage</b>	<b>Sample Size</b>
Licensed Retail Traders (excl. Supermarkets)	133,049	84.5%	338
Supermarkets (Incl. branches)	522	0.3%	1
Licensed Wholesale Traders	28	**	**
Licensed Hawkers	543	0.3	1
Registered Hotels	282	0.2	1
Petrol Stations	774	0.5	2
Licensed Liquor Outlets	2323	1.5	6
Informal Enterprises	563	0.4	1
Other Licensed Businesses	19,376	12.3	49
<b>Total</b>	<b>157,460</b>	<b>100</b>	<b>399</b>

### **3.6 Data Collection Instruments**

Self-administered structured questionnaires were administered to the respondents, who filled them in the presence of the interviewer in case of any arising need for clarification of otherwise. The research questionnaire was structured in three sections; section one was on general respondent data. The second section was on SERVQUAL Importance Weights. The last section was divided into two parts of 22 items operationalized using a five – point likert scale, ranging from (1= strongly disagree) to (5 = strongly agree). The first part's items measured expectations, while the second part measured perceptions. The likert scale was useful in measuring the strength of the respondents' responses on these items. The items were constructed based on the literature on service quality dimensions, that is tangibles, reliability, responsiveness, assurance, and empathy. To analyze Likert scale or interval data, first of all it is necessary to create Likert scale items by calculating a composite score (sum or mean) from four or more Likert items then we can use parametric statistic such as mean for central tendency and standard deviation for variance (Subedi, 2016). Composite score can be calculated by transforming the data of each items of a scale using SPSS. Additionally, as per the need we can use Pearson's r, t-test, ANOVA, and regression procedures (Boone & Boone, 2012).

#### **3.6.1 Reliability and Validity—SERVQUAL Scale**

The steps for developing the SERVQUAL scale mimicked those for the Brightman scale. The results of the analysis are presented in Table 3. These results suggest that the five dimensions of SERVQUAL are reliable, unidimensional, and divergent.

**Table 3.3: Factor development of the SERVQUAL scale.**

Factor •(No. of Items)	Cronbach's Alpha	First Eigenvalue	Second Eigenvalue	Minimum Factor Loading	Percent Var. Explained	Alpha-AVISC
<b>Tangibles •(4)</b>	.874	2.9	.6	.776	74.0	.42
<b>Reliability (5)</b>	.854	4.0	.4	.835	79.8	.48
<b>Assurance (4)</b>	.887	2.6	.2	.932	86.5	.46
<b>Responsiveness (4)</b>	.781	2.8	.6	.769	69.8	.53
<b>Empathy (5)</b>	.792	2.6	.3	.903	85.9	.43

However, before proceeding to multiple regression, researcher also tested VIF scores for the five dimensions to test for Multicollinearity. The VIF is an index, which measures how much variance of an estimated regression coefficient is increased because of multicollinearity. Multicollinearity is associated with VIF above 5 and tolerance below 0.2. Rule of Thumb: If any of the VIF values exceeds 5 or 10, it implies that the associated regression coefficients are poorly estimated because of multicollinearity (Montgomery, 2001). The highest VIF score was for reliability at 3.24. All other scores were less than 2.5. These results confirm the appropriateness of using multiple regression.

**Table 3.4: Multicollinearity**

	Tolerance	VIF
Tangibles	0.439	2.436
Responsiveness	0.752	1.457
Reliability	0.446	3.240
Assurance	0.539	1.158
Empathy	0.711	2.497

### **Dependent Variable: Performance**

Table 4.4 shows the Tolerances for all the independent variables are all above 0.2. The Variance Inflation Factors (VIFs) are all below 5. The scores of these statistical tests are accepted, implying that there is no presence of autocorrelation and multicollinearity in the data. The independent variables of the study were therefore accepted for further analysis as they did not exhibit multicollinearity.

### **3.7 Data Collection Procedure**

Data was collected using a self-administered questionnaire, in the presence of the interviewer. It was chosen because it was easy to administer in the on-the-spot-collection of information approach used in this study. The technique also facilitated confidentiality of customers' personal information because they did not have to disclose their identity when filling out the questionnaire (Cooper & Schindler, 2013). The questionnaires were administered for Two Weeks in April 2016 during working hours from 9a.m to 3 p.m., Monday through Friday. The choice of the period was because it was easier to get most traders (business customers) and residents to respond to the questionnaires after the daily traffic rush hours. It is also the time when city county banking halls experience long queues and the respondents are likely to give more "true" and "rational" assessment of the quality of service received, level satisfaction and value for their money.

### **3.8 Pilot Test Study**

Prior to actual collection of data, a pilot testing was conducted to obtain some assessment of the questions' validity and the likely reliability of the data that was collected. According to (Kombo & Tromp, 2006), validity is the accuracy and meaningfulness of inferences, which are based on research results and it is the measure of how well a data collection instrument measures what it is supposed to measure. Reliability is the extent to which an instrument is predictable, stable, accurate and dependable to yield the same results every time it is administered. Sekaran, (2003)



defines reliability as the degree to which a research instrument yields consistent results across time and other various items. According to (Connelly, 2008), extant literature suggests that a pilot study sample should be 10% of the sample projected for the larger parent study. However, Hertzog (2008) cautions that this is not a simple or straightforward issue to resolve because these types of studies are influenced by many factors. Nevertheless, (Isaac & Michael, 1995) suggested 10 – 30 participants; Hill (1998) suggested 10 to 30 participants for pilots in survey research. For this study, 26 respondents from Nairobi County were used as pilot study.

### 3.9 Data Processing and Analysis

Data once collected, was cleaned to guarantee consistency and completeness and then coded. It was then entered and analyzed using the Statistical Package for Social Scientists (SPSS) 21.0-version software. The choice of the software is due to its reliability in analyzing survey data. Both the parametric and non-parametric tests were done depending on the measurement scale. Descriptive analysis was used to describe the variables under study. Findings were presented in terms of percentages; mean scores, median and standard deviations.

**Table 3.5: Operationalization of Variables**

Variable	Definition	Measure
Y	Performance of Nairobi City County	Mean value on the performance of the Nairobi city county
X <sub>1</sub>	Reliability	Mean value on outsourced public service provider's reliability variables
X <sub>2</sub>	Responsiveness	Mean value on outsourced public service provider's responsiveness variables
X <sub>3</sub>	Assurance	Mean value on outsourced public service provider's assurance variables
X <sub>4</sub>	Empathy	Mean value on outsourced public service provider's empathy variables
X <sub>5</sub>	Tangible	Mean value on outsourced public service provider's tangible variables
A	Constant value	Constant value of y when x = 0
B	Coefficient of variables	Coefficient of variables X <sub>1</sub> , X <sub>2</sub> , X <sub>3</sub> , X <sub>4</sub>
e	Error margin	

The following analytical model was adopted:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

### **Definition of Variables**

Y Performance of Nairobi City County meeting customers' service quality expectations

X<sub>1</sub> Extent outsourced public service provider's reliability influence performance of Nairobi City County

X<sub>2</sub> Extent to which outsourced public service provider's responsiveness influence performance of Nairobi City County

X<sub>3</sub> Extent to which outsourced public service provider's assurance influence performance of Nairobi City County

X<sub>4</sub> Extent to which outsourced public service provider's empathy influence performance of Nairobi City County

X<sub>5</sub> Extent to which outsourced public service provider's tangibles influence performance of Nairobi City County

$\alpha$  Constant value of y when x = 0

$\beta$  Coefficient of variables X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>, X<sub>4</sub>, X<sub>5</sub>

e Error margin

**Table 3.6: Data analysis**

<b>Hypothesis Statement</b>	<b>Hypothesis Test</b>	<b>Decision rule and anticipated model</b>
<b>H<sub>01</sub></b> The outsourced public service provider's reliability does not influence the performance of the Nairobi City County	Karl Pearson's zero order coefficient of correlation (Beta test) HO: $\beta_1 = 0$ HA: $\beta_1 \neq 0$ Reject H <sub>01</sub> if P-value > 0.05 (otherwise fail to reject)	Reject HO1 is P-value $\leq 0.05$ otherwise fail to reject HO1 if P-value is > 0.05
<b>H<sub>02</sub></b> The outsourced public service provider's responsiveness does not influence the performance of the Nairobi City County	Karl Pearson's zero order coefficient of correlation (Beta test) HO: $\beta_2 = 0$ HA: $\beta_2 \neq 0$ Reject H <sub>02</sub> if P-value > 0.05 (otherwise fail to reject)	Reject HO2 is P-value $\leq 0.05$ otherwise fail to reject HO2 if P-value is > 0.05
<b>H<sub>03</sub></b> The outsourced public service provider's assurance does not influence the performance of the Nairobi City County	Karl Pearson's zero order coefficient of correlation (Beta test) HO: $\beta_3 = 0$ HA: $\beta_3 \neq 0$ Reject H <sub>03</sub> if P-value > 0.05 (otherwise fail to reject)	Reject HO3 is P-value $\leq 0.05$ otherwise fail to reject HO3 if P-value is > 0.05
<b>H<sub>04</sub></b> The outsourced public service provider's tangibles do not influence the performance of the Nairobi City County	Karl Pearson's zero order coefficient of correlation (Beta test) HO: $\beta_4 = 0$ HA: $\beta_4 \neq 0$ Reject H <sub>04</sub> if P-value > 0.05 (otherwise fail to reject)	Reject HO4 is P-value $\leq 0.05$ otherwise fail to reject HO4 if P-value is > 0.05
<b>H<sub>05</sub></b> The outsourced public service provider's empathy does not influence the performance of the Nairobi City County	Karl Pearson's zero order coefficient of correlation (Beta test) HO: $\beta_5 = 0$ HA: $\beta_5 \neq 0$ Reject H <sub>05</sub> if P-value > 0.05 (otherwise fail to reject)	Reject H <sub>05</sub> is P-value $\leq 0.05$ otherwise fail to reject H <sub>05</sub> if P-value is > 0.05

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

The chapter presents the findings and results on the data collected using the questionnaire. Different statistical techniques were applied to provide answers to the research questions by investigating, interpreting and bringing forth implications drawn from the findings.

##### 4.1.1 Response Rate

**Table 4.1a: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Returned filled responses	283	70.9%
Unreturned/unfilled responses	116	29.1%
<b>Total</b>	<b>399</b>	<b>100%</b>

The study targeted 384 respondents but managed to obtain responses from 283 of them thus representing a 73.69% response rate as shown in Table 4.1a. This response rate was considered adequate for analysis and making conclusions for the study. Babbie (2010) explains that a 50% response rate is adequate, 60% good and above, while 70% rated very good. This collaborates with (Mugenda & Mugenda, 2003) recommendation of a response rate of 50% based on the rule of thumb. Therefore this study considered the response rate adequate for analysis and generalization since it exceeded the minimum recommended.

#### 4.1.2 Profile of Respondents

**Table 4.1b: Respondents Profile**

Licensed Businesses	Sample Size	Frequency	Percentage
Licensed Retail Traders (excl. Supermarkets)	338	234	82.7%
Supermarkets (Incl. branches)□	1	1	0.35%
Licensed Wholesale Traders□	**	-	-
Licensed Hawkers	1	1	0.35%
Registered Hotels□	1	1	0.35%
Petrol Stations□	2	2	0.7%
Licensed Liquor Outlets	6	4	1.4%
Informal Enterprises□	1	-	-
Other Licensed Businesses	49	40	14%
<b>Total</b>	<b>399</b>	<b>283</b>	<b>100%</b>

The customer profile of the respondents was sought. A majority (82.7%) of the respondents were licensed retail traders while the rest (14%) of the respondents were other licensed businesses as shown in Table 4.1b.

#### 4.2 Data Analysis

The study used both descriptive and inferential analyses. Descriptive analysis involved the computation of frequency distribution, mean, and standard deviation, which were useful to identify differences among groups. Inferential analysis assisted in understanding relationships between the study variables. In order to meet the research objectives of this study, all valid responses were assessed using a variety of statistical techniques: Pearson's Correlation, analysis of variance and regression analysis.

#### 4.3 SERVQUAL Dimension Importance Scores

Zeithaml, Parasuraman, and Berry, (1990), identified and established five SERVQUAL dimensions of customer service quality which they found to be important to customers.

They also concluded that customers assign different levels of importance to each dimension.

**Table 4.2: SERVQUAL Importance Weights**

Dimension	Percentage Points (Weights)
Tangibles	18
Reliability	17
Responsiveness	18.95
Assurance	21.79
Empathy	24.10
Total	100

The SERVQUAL customer perception tool that was administered to Nairobi City County’ customers included a section between the expectation and perception sections that asked the respondents to divide 100 points between the five dimensions based upon their perception of importance. The respondents were asked to assign the most points to the most important dimension and fewer points to the least important dimensions. This study finding revealed (Table 4.2) the importance ranking of the SERVQUAL dimensions of the Nairobi City County customers from most important to least important as empathy, assurance, responsiveness, tangibles, and reliability. □

#### **4.4 SERVQUAL Analysis**

Table 4.3 displays the gap scores for each service quality dimension and performance at Nairobi City County. The table contains the mean ratings, corresponding standard deviations and the t-test results that indicate the level of agreement among customers and Performance, for each dimension. The gap scores for each attribute were calculated by subtracting the expectation means from the perception means. A negative service quality gap indicates that customer expectations are greater than their perceptions, based on the service provided. Positive service quality gaps result when customer perceptions exceed customer expectations. In this study all service quality gaps were found to be

negative and they were statistically significant at 5% levels. Knowing what consumers expect is an essential process in delivering quality service at any level of an operation. Any differences between customer expectations and the organization's perception of customer expectations of quality are important to identify and determine the level service quality provided.

**Table 4.3: Calculation of SERVQUAL Scores**

Dimension	Statement	Mean of Expectations (E)	Mean of Perceptions (P)	Gap Score (P-E)	Average Mean for Dimension
<b>Tangibles</b>	Modern looking equipment.	4.3733	3.291	-1.0823	
	Offices visually appealing.	4.2304	3.3747	-0.8557	
	Employees neat in appearance.	4.0974	3.3008	-0.7966	
<b>Reliability</b>	Materials associated with the service visually appealing.	4.2501	3.5964	-0.6537	-0.8471
	Promises are honored.	4.7988	4.20926	0.58954	
	Officers show a sincere interest in solving it.	4.7094	3.86446	0.84494	
	Officers perform service right the first time.	4.6995	3.81516	-0.88434	
	Provide the service at the time they promise to do so.	4.7586	3.87926	-0.87934	
<b>Responsiveness</b>	Insist on error free records.	4.4702	3.5936	0.88660	-0.8766
	Employees tell customers exactly when services will be performed.	4.278	3.09425	-1.18375	
	Employees give prompt service to customers.	4.3371	3.04005	-1.29705	
	Employees willing to help customers.	4.3272	3.01045	-1.31675	
	Employees never too busy to respond to customers'.	4.0089	3.09915	-0.90975	
<b>Assurance</b>	Employees instill confidence in customers	4.3089	3.2134	-1.0955	-1.176825
	Customers feel safe in transactions.	4.4486	2.9523	-1.4963	
	Employees consistently courteous with customers.	4.084	3.0902	-0.9938	
	Employees knowledgeable.	4.1825	2.9277	-1.2548	
<b>Empathy</b>	Officers give customers individual attention.	3.8644	4.1058	0.2414	-1.2101
	Operating hours convenient to all their customers.	4.2092	4.0516	-0.1576	
	Employees give personalized service.	4.2979	4.1058	-0.1921	
	Employees have customers' best interest at heart.	4.3028	3.8447	-0.4581	
	Employees understand specific needs of customers.	4.2831	3.9284	-0.3547	
<b>Performance</b>	Services offered by service providers meet all my quality expectations	4.1501	3.9866	-0.1635	-0.18422
	The service provider offered great value for money	4.0801	4.0020	-0.0781	
	The service provider is efficient in service delivery	4.211	4.2200	0.009	
	Scope of service coverage large	4.1904	4.2170	0.0266	
	<b>Unweighted Average Mean SERVQUAL score:</b>				

The first four questions of the tangibles dimension made up the first section of the SERVQUAL data collection tool. These questions assessed Nairobi City County customers' perceptions of the tangibles appearance aspects (equipment, materials, physical facility and employees). The average unweighted gap score (P-E) from Table 4.3 for the tangibles dimension of Service Quality is -0.85. When applying the tangibility weight score of 0.18 to the gap score, the weighted gap score from table 4.4 translates to a -0.1523. In both cases, the survey results show that the expectations of the Nairobi City County customers exceeded their perceptions of the tangible appearance aspects of their county government and their strategic outsourced public service providers.

The Reliability dimension of the SERVQUAL instrument comprised of questions 5-9, which assessed Nairobi City County customers' perceptions of the reliability aspects (acting according to promises, sincerity in problem solving, performing the service right at the first time, providing service at the promised time & insistence on error free records) of the strategic outsourced public service provider. The average unweighted gap score (P-E) for the reliability dimension from table 4.4 of Service Quality is -0.8766. When applying the reliability weight score of 0.17 to the gap score from table 4.6, the gap score changes to -0.1490. In both cases, the survey results show that the expectations of the Nairobi City County customers' fell way below their perceptions of the reliability aspects of the strategic outsourced public service providers.

The Responsiveness dimension of the SERVQUAL instrument comprised of questions 10-13, which assess Nairobi City County customers' perceptions of the responsiveness aspects (informing when services will be performed, providing services promptly, willingness to help, never being too busy to respond to request for service) of the strategic outsourced public service providers. The average unweighted gap score (P-E) for the responsiveness dimension of service quality is -1.1768. When applying the responsiveness weight score of 0.19 to the gap score, the gap score increases to -0.2236.



In both cases, the survey results show that the perceptions of the Nairobi City County customers' fall below their expectations of the responsiveness aspects of the strategic outsourced public service providers.

The Assurance dimension of the SERVQUAL instrument is comprised of questions 14-17 which assess Nairobi City County customers' perceptions of the assurance aspects (employee behavior instills confidence, customers feel secure in their transactions, employees are consistently courteous, employees have the knowledge to answer questions) of the strategic outsourced public service. The average unweighted gap score (P-E) for the assurance dimension of service quality is -1.2101. When applying the responsiveness weight score of 0.22 to the gap, the gap score increases to -0.2662. In both cases, the survey results show that the perception of the Nairobi City County customers' fall below their expectations of the assurance aspects of the strategic outsourced public service provider.

The Empathy dimension of the SERVQUAL instrument is comprised of questions 18-22 which assess Nairobi City County customers' perceptions of the empathy aspects (provides individual attention, has convenient operating hours, employees provide personal attention, has the best interest of the customer at heart, employees understand the needs of the customers) of the strategic outsourced public service provider. The average unweighted gap score (P-E) for the empathy dimension of Service Quality is -0.2808. When applying the reliability weight score of 0.24 to the gap score, the gap score increases to -0.0674. In both cases, the survey results show that the perception of the Nairobi City County customers' fall slightly below their expectations of the empathy aspects of the strategic outsourced public service providers' service quality level.

**Table 4.4: Calculation of Weighted SERVQUAL Scores**

<b>SERVQUAL Dimension</b>	<b>Score from Table 4.3 Average Dimensional Gap Score (P-E)</b>	<b>Weighting from Table 4.2</b>	<b>Weighted Gap Score</b>
Tangibles	-0.8471	0.18	-0.1523
Reliability	-0.8766	0.17	-0.1490
Responsiveness	-1.1768	0.19	-0.2236
Assurance	-1.2101	0.22	-0.2662
Empathy	-0.2808	0.24	-0.0674
<b>Average Weighted Gap score:</b>			<b>-0.86</b>

The unweighted Average SERVQUAL score is negative. This means the services offered by the outsourced public service providers did not meet the expectations of respondents in terms of reliability, tangibles, responsiveness, assurance and empathy. From Table 4.4 above we can see that values order of indicators remains unchanged after weighting average scores obtained previously, empathy remains first, while assurance is in the last place. Expectations and perceptions were both measured using the 5-point likert scale whereby the higher numbers indicate higher level of expectation or perception. In general, consumer expectation exceeded the perceived level of service shown by the perception scores. This resulted in a negative gap score (Perception – Expectation) of average weighted Gap score of -0.87. According to Parasuraman et al., (1988) it is however common for consumer’s expectation to exceed the actual service perceived and this signifies that there is always need for improvement.

#### **4.5 Correlation Analysis**

Pearson’s Correlation analysis was used to establish the degree of relationships between variables. Pearson Correlation was preferred because it assesses the strength of linear relationship between two variables used to test for the relationship between two variables. Correlation coefficients are used in statistics to measure how strong a relationship is between two variables. The quantity  $r$ , called the linear correlation

coefficient, measures the strength and the direction of a linear relationship between two variables. The linear correlation coefficient is sometimes referred to as the Pearson product moment correlation coefficient in honor of its developer Karl Pearson. The mathematical formula for computing r is:

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{N})(\sum Y^2 - \frac{(\sum Y)^2}{N})}}$$

Where, n is the number of pairs of data.

**Table 4.5: Correlations for Outsourced Public Service Providers' Quality Dimensions and Performance**

		<b>Tangibles</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Responsive-ness</b>	<b>Empathy</b>	<b>Performance</b>
Tangibles	Pearson Correlation	<b>1</b>					
	Sig. (2-tailed)						
	N	283					
Reliability	Pearson Correlation	0.813**	<b>1</b>				
	Sig. (2-tailed)	0.000					
	N	283	283				
Assurance	Pearson Correlation	0.751**	0.607**	<b>1</b>			
	Sig. (2-tailed)	0.000	0.002				
	N	283	283	283			
Responsive-ness	Pearson Correlation	0.723**	0.721**	0.800**	<b>1</b>		
	Sig. (2-tailed)	0.000	0.000	0.000			
	N	283	283	283	283		
Empathy	Pearson Correlation	0.642**	0.811**	0.699**	0.753**	<b>1</b>	
	Sig. (2-tailed)	0.000	0.000	0.000	0.000		
	N	283	283	283	283	283	
Performance	Pearson Correlation	0.841**	0.781**	0.824**	0.822**	0.812**	<b>1</b>
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000	

Bivariate Correlations is used to know the nature, direction and significance of the bivariate relationship of the variables of this study. Based on the analysis presented in Table 4.5, the results show that there is a positive correlation between the variables. The correlation between Tangibles and Reliability, indicates that there is a significant correlation between two variables with coefficient correlation  $r = .813$  at  $p < 0.00$  level. The correlation between Tangibles and Assurance, indicates that there is a significant correlation between two variables with coefficient correlation  $r = .751$  at  $p < 0.00$  level. Similarly, the correlation between Tangibles and Responsiveness, Tangibles and Empathy, Tangibles and Performance, indicates that there are a significant correlation between two variables with coefficient correlation  $r = .723$  at  $p < 0.00$  level,  $r = .642$  at  $p < 0.01$  level,  $r = .841$  at  $p < 0.00$  level.

The correlation between Reliability and Assurance, indicates that there is a significant correlation with coefficient correlation  $r = .607$  at  $p < 0.002$  level. Similarly, the correlation between Reliability and Responsiveness, Reliability and Empathy, Reliability and Performance, indicates that there are a significant correlation with coefficient correlation  $r = .721$  at  $p < 0.01$  level,  $r = .811$  at  $p < 0.00$  level,  $r = .781$  at  $p < 0.00$  level. The correlation between Assurance and Responsiveness, indicates that there is a significant correlation between two variables with correlation coefficient,  $r = .800$  at  $p < 0.00$  level. Similarly, the correlation between Assurance and Empathy, Assurance and Performance, indicates that there are a significant correlation with correlation coefficient  $r = .699$  at  $p < 0.02$  level,  $r = .824$  at  $p < 0.00$  level.

The correlation between Responsiveness and Empathy, Responsiveness and Service Quality, indicates that there is a significant correlation with coefficient correlation  $r = .753$  at  $p < 0.00$  level and  $r = .822$  at  $p < 0.00$  level. Finally, the correlation between Empathy and Performance, indicates that there is a significant correlation between two variables with coefficient correlation  $r = .812$  at  $p < 0.00$  level. So we conclude that there is a strong relationship between quality dimensions and performance of Nairobi

City County.

#### 4.6 Multiple Regression Analysis

The regression analysis was done to examine the influences of outsourced public service providers' five quality dimensions on the performance of Nairobi City County. Regression analysis describes the way in which a dependent variable is affected by a change in the value of one or more independent variable. Multiple regression analysis was used to determine the contribution of each of the independent variables to dependent variable. This technique was preferred because it tests the relative contribution of the independent variables on customer loyalty was achieved through multiple regression. Regression helps to predict the value of a dependent variable using one or more independent variables (Kometa, 2007) and is used for the investigation of relationships between variables (Sykes (1993). This analysis was also useful in quantifying the influence of various simultaneous effects on a single dependent variable (Sykes, 1993). In order to test the strength of the relationship between the dependent and independent variables, regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. The results of the multiple regressions are shown in Table 4.5.

Five variables of strategic outsourced public service providers' quality dimensions were taken as independent variables against organizational performance as dependent variable in a multiple regression model. For all the hypotheses of the study below hypothesis test was used at 95% confidence interval.

To know about the impact of the individual dimensions of outsourced public service provider' quality dimensions on performance, multiple regressions using the following model was used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \dots\dots\dots(1)$$

Where:

Y = Performance,

X<sub>1</sub> = Tangibles,

X<sub>2</sub> = Reliability,

X<sub>3</sub> = Responsiveness,

X<sub>4</sub> = Assurance,

X<sub>5</sub> = Empathy.

**Table 4.6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df <sub>1</sub>	df <sub>2</sub>	Sig. F Change
1	.904	.817	.802	.1147	.817	44.671	5	294	.000

Predictors: (Constant), Tangibles, Reliability, Responsiveness, Assurance, and Empathy.

From Table 4.6, it has been seen that R-value is 0.904. Therefore, R-value (.904) for the overall service quality dimensions suggested that there is a strong effect of these five independent variables on performance of Nairobi City County. It can also be observed that the coefficient of determination, the R-square ( $R^2$ ) value is 0.817, which represents 81.7% variation of the dependent variable (performance), which is due to the independent variables (Quality).

**Table 4.7: ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Squares</b>	<b>F</b>	<b>Sig.</b>
1	Regression	22.351	5	4.470	44.671	0.000
	Residual	16.489	294	0.056		
	Total	38.840	299			

Predictors: (Constant), Strategic Outsourced Public Service Providers' Tangibles, Reliability, Responsiveness, Assurance, Empathy.

Dependent Variable: Performance of Nairobi City County

From the Table 4.7, it is identified that the value of F-stat is 44.671 and is significant as the level of significance is less than 5% ( $p < 0.05$ ). This indicates that the overall model was a reasonable fit and there was a statistically significant association between outsourced service providers' quality dimensions and performance of Nairobi City County. Additionally, this also indicates that the null hypothesis is rejected. Hence it can be concluded that outsourced public service providers' quality dimensions have significant impact on performance of Nairobi City County.

**Table 4.8: Coefficients of model**

<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta (<math>\beta</math>)</b>		
1	(Constant)	0.976	0.671		11.926	0.004
	Tangibles	0.681	0.133	0.411	7.843	0.000
	Reliability	0.589	0.353	0.356	6.234	0.001
	Responsiveness	0.612	0.236	0.403	6.987	0.000
	Assurance	0.472	0.442	0.312	5.453	0.001
	Empathy	0.413	0.468	0.296	4.998	0.002

### **Dependent Variable: Performance**

In the Table 4.8, unstandardized coefficients indicate how much the dependent variable varies with an independent variable, when all other independent variables are held constant. The beta coefficients indicate how and to what extent SERVQUAL dimensions such as tangibility, reliability, responsiveness, assurance and empathy influence Performance of Nairobi City County. It has been found that, Tangibles ( $\beta = .411$ ,  $t=7.843$ ,  $p<0.000$ ) and Responsiveness ( $\beta = .403$ ,  $t=6.987$ ,  $p<0.000$ ) have the highest influence on performance, whereas, Reliability ( $\beta = .356$ ,  $t=6.234$ ,  $p<0.001$ ), Assurance ( $\beta = .312$ ,  $t=5.453$ ,  $p<0.001$ ) and Empathy ( $\beta = .296$ ,  $t=4.998$ ,  $p<0.002$ ), have a relatively lower impact on performance of Nairobi City County.

Then the fitted Regression Model is:

$$\hat{Y} = 0.976 + 0.411X_1 + 0.403X_2 + 0.356X_3 + 0.312X_4 + 0.296X_5$$

$\hat{Y}$  = Performance of Nairobi City County.

Where;  $X_1$ ,  $X_2$ ,  $X_3$ ,  $X_4$  and  $X_5$  = tangibles, responsiveness, reliability, assurance and empathy respectively.

The results show that all the service providers' five quality dimensions were positively related to the performance of Nairobi City County. This means that as each of the dimensions is enhanced, the performance of Nairobi City County would also be improved.

### **4.7 Discussion of Key Findings**

The general objective of the study was to investigate the influence of outsourcing on the performance of Nairobi City County. The study specifically sought to establish the influences of outsourced public service providers' quality dimensions on the performance of Nairobi City County.



The study was guided by five research objectives, to establish the relationships and influence of the strategic outsourced public service provider's reliability, responsiveness, tangibles, assurance and empathy on the performance of Nairobi City County.

#### **4.7.1 Influence of Outsourced Public Service Provider's Reliability on Performance of Nairobi City County.**

Bivariate Correlations is used to know the nature, direction and significance of the bivariate relationship of the variables of this study. The correlations between Reliability and Performance, as shown in table 4.5 indicates that there are a significant correlation with coefficient correlation,  $r = .781$  at  $p < 0.00$  level. The coefficient of determination ( $r^2$ ) shows that there is a significant positive relationship of 78.1%. Therefore we reject the hypothesis  $H_{01}$ , which stated that outsourced public service provider's reliability does not influence the performance of Nairobi City County. Reliability relates to handling customers' service problems; performing services right the first time; providing services at the promised time and maintaining error-free record. Furthermore, (Parasuraman *et al.*, 1988), stated that reliability is the most important factor in conventional service. (Yang & Peterson, 2004) also argued that reliability is the most important factor in banking services. According to (Singh, 2012), reliability refers to three important factors, which are accessibility, continuity and performance. Accessibility is the most important aspect, which means that the service is available whenever it is required and desired. The second important thing is continuity which means that the service continues to be available and up to the required standard. Maintenance of standard is imperative for adhering to the continuity factor. If the service is not continuously reliable, there is a chance that customer will not trust its reliability and will switch to the other service providers (Zeithaml *et al.*, 2009). The third factor refers to performance. It includes high quality service delivery and exceeding the customers' satisfaction thus gaining their loyalty for longer time (Arslan *et al.*, 2015).

#### **4.7.2 Influence of Outsourced Service Provider's Responsiveness on Performance of Nairobi City County.**

The correlation between Responsiveness and performance, as shown in table 4.5 indicates that there is a significant correlation with coefficient correlation  $r = .822$  at  $p < 0.00$  level. The coefficient of determination ( $r^2$ ) shows that there is a significant positive relationship of 82.2%. Therefore we reject the hypothesis  $H_{02}$ , which stated that outsourced public service provider's responsiveness does not influence the performance of Nairobi City County. There is a significant positive relationship between the outsourced public service provider's responsiveness and Performance. Responsiveness relates to performance criteria and can be treated as process quality. It also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers' safety in their transaction (Kumar *et al.*, 2009). Customers want to acquire services free of blunders, performed according to criteria, correctly, quickly and within time (Culiberg & Rojsek, 2010.). Mengi (2009) also found that responsiveness is positively related to performance. This also concurs with (Glaveli *et al.*, (2006), who argued that responsiveness is likely to have an important and positive influence on Performance.

#### **4.7.3 Influence of Outsourced Public Service Provider's Assurance on Performance of Nairobi City County.**

Correlation between Assurance and performance, as shown in table 4.5 indicates that there is a significant correlation with correlation coefficient  $r = .824$  at  $p < 0.00$  level. The coefficient of determination ( $r^2$ ) shows that there is a significant positive relationship of 82.4%. Therefore we reject the hypothesis  $H_{03}$ , which stated that outsourced public service provider's assurance does not influence the performance of Nairobi City County. There is a significant positive relationship between the outsourced public service provider's assurance and performance of Nairobi City County. Assurance is developed by the level of knowledge and courtesy displayed by the employees in rendering the services and their ability to instill trust and confidence in customer (Blery

*et al.*, 2009). The assurance construct extends to the competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), credibility and security of the employees and their ability to inspire trust and confidence. Kumar *et al.*, (2010) and Lai (2004) found that confidence is one of the important factors for assurance. As confidence in one's impressions about the firm increases (Verhoef *et al.*, 2002), trust develops between the parties (Gwinner *et al.*, 1998), and the cost of switching firm rises (Shapiro and Varian, 1999). The customer will not be satisfied if he/she does not feel assured about the competence of the service provider. Studies by (Ndubisi, 2006); Ndubisi & Wah, 2005) found that assurance may also positively influence repurchase intension of customers.

#### **4.7.4 Influence of Outsourced Public Service Provider's Tangibles on Performance of Nairobi City County.**

Correlation between Tangibles and performance, as shown in table 4.5 indicates that there is a significant correlation with correlation coefficient  $r = .841$  at  $p < 0.00$  level. The coefficient of determination ( $r^2$ ) shows that there is a significant positive relationship of 84.1%. Therefore we reject the hypothesis  $H_{04}$ , which stated that outsourced public service provider's tangibles do not influence the performance of Nairobi City County. According to this study, there is a significant positive relationship between the outsourced public service provider's tangibles and performance of Nairobi City County. According to Culiberg and Rojsek, (2010), customers make their service quality decisions based on appearance of a bank's interior, equipment, staff members and printed materials. Visual images help customers form an impression about the service they are getting. They expect employees to be properly dressed, a bank interior needs to be appropriately arranged, printed materials attractive and equipment up-to-date. □ The more customers appreciate on the physical aspects, the higher the overall evaluation of retail service quality is (Bellini *et al.*, 2005). Angur *et al.* (1999) found that business premises should have a high standard of decoration and a nice environment to positively influence service quality, which will consequently lead to customer loyalty. In

addition, it has been confirmed that consumers depend on the physical and tangible evidence to which they have access to give evaluation of the quality of the intangible service components (Namasivayam, 2004). Jabnoun and Al-Tamimi, (2003) found that banks with better ambience enhanced customer satisfaction in a better way.

Other studies have also confirmed that tangibles are more attracting to customers as clue of service quality (Shostack, 1977; Berry, 1980; Zeithaml, 1981; Gronroos, 1984; Berry *et al.*, 1985; Bitner 1990; Ward *et al.*, 1992, Johnson, Brady & Cronin, 2001a; Hoffman, Kelly & Chung, 2003; Koernig, 2003). Ward *et al.*, (1992) stated that customers' reactions to the environmental cues are much the same as they are to the package cues when customers evaluate and form their internal expectations about goods. Bateson (1985) described tangibles as an important factor in managing the service encounter and reducing a perceived risk. If service marketers convey the proper signal to their service environment, they will fulfill their prime responsibility (Shostack, 1997, 1985, 1987; Berry, 1980; Berry *et al.*, 1985).

#### **4.7.5 Influence of Outsourced Public Service Provider's Empathy on Performance of Nairobi City County.**

Correlation between Empathy and performance, as shown in table 4.5 indicates that there is a significant correlation with correlation coefficient  $r = .812$  at  $p < 0.00$  level. The coefficient of determination ( $r^2$ ) shows that there is a significant positive relationship of 81.2%. Therefore we reject the hypothesis  $H_{05}$ , which stated that outsourced public service provider's empathy does not influence the performance of Nairobi City County. There is a strong positive relationship between the outsourced public service provider's empathy and performance of Nairobi City County. Empathy means taking care of the customers by giving attention to them at individual level (Blery *et al.*, 2009). Fitzsimmons and Fitzsimmons (2001) suggest that empathy contains approachability, sensitivity, and efforts to understand customer needs. Wieseke *et al.* (2012) empirically investigated the role of empathy in service quality and its impact on customer satisfaction. It was established that customers treated emphatically are more

often visitors and prone to forgive any mistakes that may occur. Empathy creates an emotional relationship with customer, providing customer a touch of importance for business. Karatepe, (2011) explored the service environment impact with empathy and reliability on loyalty. Empathy works as a moderator between quality and customer satisfaction. Empathy can change the behavior of customer ultimately.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary of the entire study based on the earlier formulated research objectives and hypotheses. The primary data obtained from respondents was analyzed to give the findings presented in the chapter 4, of which this summary is drawn. Theoretical and empirical literature in chapter two was used to compare the findings of this study and conclusions drawn. Based on the conclusions and key implications drawn from the study, recommendations both for policy and practice are given as well as suggestions for further research.

#### **5.2 Summary of Findings**

The main objective of this study was to assess the influence of outsourced public service provider's quality dimensions on the quality of public services in the Nairobi City County in Kenya. Specifically, the study investigated the influence of the outsourced public service provider's reliability, responsiveness, tangibles, assurance, and empathy functions on the performance of Nairobi County in Kenya. The study adopted the descriptive research design. Primary data was collected using a structured questionnaire instrument with closed ended questions on a five-point likert scale. The questionnaire was self-administered, and was divided into two main parts of 22 items, one testing for expectations, and the other for perceptions. The five SERVQUAL service quality dimensions, which are reliability, responsiveness, tangibles, assurance, and empathy, guided the choice of the 22 items. Factor analysis was used to assess the validity and Cronbach's alpha to assess reliability of the questionnaire. SERVQUAL analysis was used to test the difference between expectations and perceived service quality based on the service dimensions. Multiple regression analysis was performed to assess the relationship between the dependent variable (performance of Nairobi City County) and

the independent variables (reliability, responsiveness, tangibles, empathy and assurance) and to test the research hypotheses on the influence strategic outsourced public service provider's service quality dimensions on the performance of Nairobi City County.

### **5.2.1 Influence of the Outsourced Service Provider's Reliability on Performance of Nairobi City County.**

From the descriptive analysis done, majority of respondents agreed that the outsourced public service providers' reliability influenced the performance of Nairobi City County. SERVQUAL analyses show that most customers had higher expectations than the perceived service outcomes in regard to the reliability dimension of the services offered. This is a clear indication that the services offered by the strategic outsourced providers did not meet the reliability expectations of the consumers within the county governments. It shows that the outsourced public service providers were not honoring their promises to offer services right the first time; did not show sincere interest in solving customers' problems; did not offer timely solutions to customers problems, and did not maintain error-free records for the most time. The correlation analysis between reliability and the quality of service offered revealed a strong significant positive relationship. This shows that reliability has a significant influence on the performance of Nairobi City County.

### **5.2.2 Influence of the outsourced service provider's responsiveness on performance of Nairobi City County**

The descriptive analyses show that majority of respondents acknowledged that the outsourced public service providers' responsiveness influenced performance of Nairobi City County. SERVQUAL analyses also show that most customers had higher expectations than the perceived service outcomes in regard to the responsiveness dimension of the services offered. From the SERVQUAL analyses, the outsourced public service providers' responsiveness was below the customers' expectations. The service providers did not inform customers when services would be performed, and

whenever there were service breakdowns, the resumption was not prompt. Additionally, the employees lacked the right attitude to help customers or respond positively to customers' requests. The correlation analysis between responsiveness and performance revealed a very strong positive relationship. This shows that responsiveness is very instrumental on the performance of Nairobi City County.

### **5.2.3 Influence of the outsourced service provider's assurance on performance of Nairobi City County**

The descriptive analyses show that majority of respondents acknowledged that the strategic outsourced public service providers' assurance influenced performance of Nairobi City County. SERVQUAL analyses also show that most customers had higher expectations than the perceived service outcomes in regard to the assurance dimension of the services offered. From the SERVQUAL analyses, the strategic outsourced public service providers' assurance was below the customers' expectations. The assurance construct extends to the competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), credibility and security of the employees and their ability to inspire trust and confidence. Most respondents argued that the strategic outsourced service providers' employees lacked essential customer service skills and lacked the general credibility. The correlation analysis between assurance and the quality of service offered was the second highest, after the tangibles dimension. This revealed a very strong positive relationship. This shows that responsiveness is very instrumental on the performance of Nairobi City County.

### **5.2.4 Influence of Outsourced Service Provider's Tangibles on Performance of Nairobi City County.**

Study analyses show that majority of respondents acknowledged that the outsourced public service providers' tangibles influenced performance of Nairobi City County. SERVQUAL analyses also show that most customers had higher expectations than the



perceived service outcomes in regard to the tangibles dimension of the services offered. From the SERVQUAL analyses, the strategic outsourced public service providers' tangibles fell below the customers' expectations.

These findings further prove that in the public service sector, customers make their service quality decisions based on appearance of a service provider's machinery, equipment, staff members and printed materials. Visual images help customers form an impression about the service they are getting. The level of technology adoption by the service provider highly influences the customer's perceived service quality. Unfortunately most outsourced public service providers had very old garbage collection trucks in Nairobi. Some service providers' employees lacked the necessary equipment including safety gloves, goggles and other protective paraphernalia. The lack of these key essentials equipment negatively influenced the perception of the service outcome from the service providers. The correlation analysis between tangibles and the quality of service offered was the highest. This means that the tangibles dimension had the most influence on performance. This revealed a very strong positive relationship. This shows that the tangibles dimension had the greatest influence on performance of Nairobi City County.

#### **5.2.5 Influence of outsourced service provider's empathy on performance of Nairobi City County.**

Study analyses show that majority of respondents acknowledged that the outsourced public service providers' empathy influenced performance of Nairobi City County. SERVQUAL analyses also show that some customers' expectations in regard to the empathy dimension were met and actually exceeded. For instance, the outsourced service providers met the individualized attention variable of the empathetic dimension. Respondents also expressed satisfaction with the operating hours of the service providers and to a certain extent their level of customer service. However, most respondents felt that the service provider's employees still lacked the understanding of the specific customer needs. The employees also lacked the sincere ability to empathize with their

customers from their heart. From the SERVQUAL analyses, the strategic outsourced public service providers' empathy fell below the customers' expectations. The correlation analysis between empathy and the quality of service offered showed a significantly positive relationship. This means that the empathy dimension strongly influenced the performance of Nairobi City County.

### **5.3 Conclusions**

From the analysis of the findings, the study concludes that the outsourced public service providers' reliability influenced performance of Nairobi City County. This is a clear indication that the services offered by the outsourced providers did not meet the reliability expectations of the consumers within the city county. This also shows that reliability has a significant influence on performance. The second conclusion is that the strategic outsourced public service providers' responsiveness influenced performance of Nairobi City County. The SERVQUAL analyses also show that most customers had higher expectations than the perceived service outcomes in regard to the responsiveness dimension of the services offered. The correlation analysis between responsiveness and performance revealed a very strong positive relationship.

The third conclusion is that the outsourced public service providers' assurance influenced performance of Nairobi City County. The correlation analysis between assurance and performance was the second highest, after the tangibles dimension. This revealed a very strong positive relationship. This shows that assurance played a crucial role on the performance of Nairobi City County. Fourth conclusion is that the strategic outsourced public service providers' tangibles influenced performance of Nairobi City County. The correlation analysis between tangibles and performance was the highest. This shows that the tangibles dimension had the greatest influence on the performance of Nairobi City County.

The fifth conclusion of the study analysis showed that majority of respondents acknowledged that the outsourced public service providers' empathy influenced performance of Nairobi City County. This means that the empathy dimension strongly influenced the performance of Nairobi City County. The study concludes that all the outsourced public service providers' service dimensions including reliability, assurance, empathy, responsiveness, and tangibles influenced performance of Nairobi City County. However, tangibles and assurance dimensions had the most influence on performance.

#### **5.4 Recommendations of the study.**

Service quality is one of the critical success factors that influence the competitiveness of an organization. An outsourced public services provider can differentiate it from competitors by providing high quality service. The study has shown that customers are looking for service providers that keep their promises, provide prompt service and have employees that are competent and always willing to help the customer. The study recommends that outsourced public service providers' employees need to be more responsiveness in their service delivery. The service providers need to inform their customers when services would be performed, and whenever there were service breakdowns, the resumption should be prompt. Additionally, their employees need the right attitude to help customers or respond positively to customers' requests. Nairobi City County should also develop minimum training requirements for all the employees of the outsourced public service provider's employees. These training requirements should ensure that the employees are equipped with the necessary customer service skills to ensure standardized work delivery.

The second recommendation is that the outsourced public service providers' need to improve their assurance dimension. The correlation analysis between assurance and the quality of service offered was the second highest, after the tangibles dimension. This shows that assurance played a very crucial role in determining the perceived service quality of the public service customers. The strategic outsourced public service providers' need to train their employees to ensure they possess the required skills and

knowledge to perform the service, and show high levels of courtesy and consideration for the customer's property. The contact employees should be clean and neat in appearance, and show high levels of credibility and improve their ability to inspire trust and confidence in the customers. Most respondents argued that the strategic outsourced service providers' employees lacked essential customer service skills and lacked the general credibility.

The third recommendation is that the outsourced public service providers' need to improve their tangibles dimension to improve the performance of Nairobi City County. The correlation analysis between tangibles and the quality of service offered was the highest. This shows that the tangibles dimension had the greatest influence on the perceived quality of public services offered in the Nairobi City County. Customers make their service quality decisions based on appearance of a service provider's machinery, equipment, staff members and printed materials. The service providers therefore need to get reliable modern machinery and equipment and ensure that their employees have all the necessary protective and work tools and equipment for performing their duties. Service providers need to update their level of technology adoption ensuring they adopt the most modern technology in their service delivery. They should get new reliable garbage collection trucks and equip their employees with the necessary equipment including safety gloves, goggles and other protective paraphernalia.

The fourth recommendation of the study is that outsourced public service providers' needed to improve their empathy dimension to improve the performance of Nairobi City County. For instance, the outsourced service providers met the individualized attention variable of the empathetic dimension. Respondents also expressed satisfaction with the operating hours of the service providers and to a certain extent their level of customer service. The employees therefore need to show genuine sincerity in their interactions with their customers. Additionally, outsourced public service provider's employees need to show understanding of the specific customer needs and address them satisfactorily.

The study further revealed that the service quality dimensions were interrelated. Therefore the outsourced public service providers need to invest more in employee training programs to enhance individualized customer service delivery aimed at establishing long-term relationships with their customer and improving the service quality offering.

### **5.5 Suggestions for further research**

This study was conducted in Nairobi City County. It therefore needs to be categorically stated that the study findings may not be comprehensive and conclusive. The study recommends that a more comprehensive study be carried out on strategic outsourcing of public services in all the 47 counties in Kenya. This will present a more comprehensive study findings.

Secondly the study suggests that more research be carried out to establish other underlying service quality factors that influence the performance of Nairobi City County and ways of improving the delivery of the same.

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## APPENDICES

### Appendix 1: Introduction Letter

#### Letter to respondents

Questionnaire Number.....

Dear Sir/Madam:

#### **RESEARCH QUESTIONNAIRE**

I am student at the Jomo Kenyatta University of Agriculture and Technology pursuing a Doctor of Philosophy Degree in Business Administration (Strategic Management). It is a requirement to write a research thesis as a partial fulfillment of the program. I am currently conducting a research titled, "*Effect of outsourced public service provider's quality dimensions on performance of Nairobi City County*".

You have been randomly selected to participate in this study, being a member of one of the sector target in this study. Enclosed herein is a copy of the questionnaires, which I kindly request you to take a little of your time and complete. Any information provided is strictly for academic purposes and will be handled with strict confidence. Your assistance and co-operation will be highly appreciated.

A copy of the research report would be availed to you upon request.

Yours faithfully

B. K. Ingari, JKUAT,

Mombasa CBD Campus, Mombasa.



**Appendix 2: Questionnaire to Nairobi City County Customers**

**Section A: General**

1. What Outsourced public services do you get from Nairobi City County?

Garbage/Waste disposal

Fresh Water Supply

Cleaning of business environment

Use of Car Parking Space

Other: Specify (.....)

**SERVQUAL**  
**Importance Weights**

Listed below are the five sets of features pertaining to Nairobi City County outsourced public service providers and the services they offer. We would like to know how much each of these sets of features is important to the customer. Please allocate 100 points among the five sets of features according to how important it is to you. Make sure the points add up to 100.

<b>Features</b>	<b>Points</b>
1. The appearance of the service providers' physical facilities, equipment, personnel and communication materials.	
2. The service providers' ability to perform the promised service dependably and accurately	
3. The service providers' willingness to help customers and provide prompt service.	
4. The knowledge and courtesy of the service providers' employees and their ability to convey trust and confidence.	
5. The caring individual attention the service providers' provides its customers.	
<b>Total:</b>	100

**Table 2 - SERVQUAL Importance Weights**

**The Questionnaire** The questionnaire below is in two sections. The first section asks you to assess the quality of services provided according to your expectations in terms of what you expect your public service providers' to provide. The second section asks you assess the quality of services provided according to your experiences and perceptions.

**Expectations** This section of the survey deals with your opinions of what you expect of Nairobi City County services. Please show the extent to which you think service providers should possess the following features. What we are interested in here is a number that best shows your expectations about institutions offering the essential city county services.

Please tick ( ) where you prefer

Variable	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
<b>Tangibles</b>	The service providers will have modern looking equipment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The physical facilities at service providers' offices will be visually appealing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employees at service providers' offices will be neat in their appearance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Materials associated with the service (pamphlets or statements) will be visually appealing at service providers' offices.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Reliability</b>	When the service providers' promises to do something by a certain time, they do.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	When a customer has a problem, service providers' officers will show a sincere interest in solving it.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' officers will perform the service right the first time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service providers will provide the service at the time they promise to do so.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	The service providers' employees will insist on error free records.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Responsiveness</b>	Service providers' employees will tell customers exactly when services will be performed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will give prompt service to customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employees of the county government will always be willing to help customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will never be too busy to respond to customers' requests.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Assurance</b>	The behavior of service providers' employees in the offices will instill confidence in customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	You will feel safe when transacting with the service providers' employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will be consistently courteous with customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will have the knowledge to answer customers' questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Empathy</b>	Service providers' employees will give customers individual attention.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' offices will have operating hours convenient to all their customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers will have employees who give customers personal service.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will have their customers' best interest at heart.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees will understand the specific needs of their customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Performance</b>	Services offered by the outsourced service providers will meet all my quality expectations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service provider will offer great value for money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service provider will be efficient in service delivery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The scope of service coverage will be large	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Perceptions**

The following statements relate to your feelings about the particular county government service you consumed recently. Please show the extent to which you believe this county government has the feature described in the statement.

Please tick ( ) your preferred choice

<b>Variable</b>	<b>Statement</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>Tangibles</b>	The service providers have modern looking equipment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service providers' offices' physical features are visually appealing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' reception desk employees are neat appearing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Materials associated with the service (such as pamphlets or statements) are visually appealing at the service providers' offices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Reliability</b>	When the service providers' employees promise to do something by a certain time, they do so.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	When you have a problem, the service providers' employees show a sincere interest in solving it.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service providers' employees perform the service right the first time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service providers provide their service at the time they promise to do so.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Responsiveness</b>	Service providers' employees insist on error free records.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees tell you	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	exactly when the services will be performed.					
	Service providers' employees give you prompt service.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees are always willing to help you.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees are never too busy to respond to your request.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Assurance</b>	The behavior of service providers' employees instills confidence in you.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	You feel safe in your transactions with the service providers' employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees are consistently courteous with you.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees have the knowledge to answer your questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Empathy</b>	Service providers' employees give you individual attention.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service providers' offices' operating hours are convenient to all its customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees give you personal attention.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees have your best interests at heart.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Service providers' employees understand your specific needs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Performance</b>	Services offered by the outsourced service providers met all my quality expectations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service provider offered great value for money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The service provider was efficient in service delivery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The scope of service coverage was be large	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you very much for your time and input.