

Strategies to ensure successful outsourcing of public service delivery in Kenyan Cities

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Abstract- Kenya experiences public service delivery breakdowns in all her major cities due to politicized public service delivery systems. These interruptions occur despite the huge wage bills and bloated workforces at the county governments. These failures affect delivery of essential services in key areas of garbage collection, roads maintenance, fresh water supply, control of hawkers' activities, healthcare delivery amongst others. This article seeks to recommend strategies that can be adopted to ensure cost-effective quality service delivery and encourage accountability. The article proposes outsourcing of public service delivery from the in-house county governments to competent reliable private providers who can be held responsible throughout the contract periods. The guiding premise is that outsourcing of public services when properly utilized can lead to cost-effective quality delivery of public services using competent private firms. The article acknowledges that outsourcing is not a universal panacea, and that when used carelessly, it can lead to catastrophic results. The article therefore examined several documented cases of both successful and failed public outsourcing contracts to establish best strategies that can be duplicated to succeed in Kenyan cities. The study adopted a multiple case study approach. The case studies are centered on fourteen cities in the USA and one from Germany. The cases comprised of outsourced contracts that are underway and some that have already been terminated. After thorough analysis, the study made the following recommendations: County governments should conduct training programs for their middle level managers and departmental heads on modern ethical procurement and procurement-management procedures to ensure streamlined public outsourcing procurement practice and eradicate elements of corruption in outsourcing process. The Procurement Manual for Works should guide tendering process of all public works in Kenya. 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. Secondly, The decision makers must have clear goals, the scope of the outsourced contract, and the expected outcomes to enable them to effectively plan the major processes, tasks, and milestones, as well as appropriating the associated costs. The county governments should encourage competitive bidding during the tendering process to lower the overall cost. They should match the scope of the contract to the market and to supplier availability to attract the highest number of quality bidders. The county government officials should devote sufficient time to negotiating and crafting the contract document to establish clear expectations, roles, and responsibilities.

Index Terms- Outsourcing, Service Quality, Strategies, County governments

I. INTRODUCTION

Outsourcing has been variously defined by researchers as the procurement option that favors 'contracting out' of services previously performed in-house to an external service provider as a means of increasing organizational efficiency and effectiveness (Li and Choi, 2009; Hamzah et al., 2010). CIPS defines outsourcing as "the process of identifying the most suitable expert third party service provider to undertake the management, administration and

provision of the service in question". "Outsourcing has the potential to depoliticize certain aspects of service delivery, as fixed contracts allow for better budget control and reduce the need for controversial service cuts. In addition, it reduces the need for direct personnel management by shifting these responsibilities to the contractor" (Outsourcing Methods and Case Studies, (2009). "Outsourcing is a useful tool employed by cities across the country (USA) to cut costs, improve quality of service, and raise revenue. Approximately 80 percent of all US cities outsource some service" (Outsourcing in State and Local Governments: (2006). The potential benefits of outsourcing include cost savings, efficiency gains, improved flexibility, access to world-class expertise and focus on core competencies. However, outsourcing also poses numerous risks that must be managed in order for outsourcing to be successful (Kremic, 2006, p.467). "Cities should never outsource functions that are inherently governmental, such as law enforcement, policy making, and public safety. These functions are essential to the well being and quality of life of citizens and therefore should never be subjected to the risk of contractor failure" (Outsourcing Methods and Case Studies, (2009). In addition, public services should only be contracted to selected well-qualified vendors with a proven methodological and technological expertise.

2.0 Literature Review

2.1 Outsourcing in the Public Sector

The Report of an Expert Panel, (2014) had a guarded

view about outsourcing and pointed to challenges and constraints that make it difficult for many state and local governments to create the right conditions and marshal the necessary resources to make outsourcing work. According to the report, research indicates that the anticipated cost savings from competition, fewer managerial constraints, and financial incentives often fail to materialize in practice, particularly when outsourcing initiatives are not designed and managed effectively. Additionally, contract management requires a high degree of skill and expertise and is more costly than is often believed. Governments need to carefully project the costs of these activities and the challenges they pose when making outsourcing decisions. An informed outsourcing decision requires a broad skill set, which will depend in large part on the initial rationale and scope for the project.

Research shows that a thorough risk assessment must be taken before you enter into outsourcing agreements. The local councils must adopt a very cautious approach to outsourcing based on risk minimization (Cox et al, (2012). Barthelemy (2003a, p.93) concluded that hidden costs are one of the greatest risks when outsourcing. Hidden costs occur in selection, managing the contract, and making changes to the contract, all of which can offset any cost savings during the agreement. Indeed, flexibility can only be gained through outsourcing at extra cost to the council or through the development of trust. (Cox et al, (2012). Hidden costs are the most important risk to consider because any costs that arise later may offset any savings from the agreement (Barthelemy, 2003a,

p.93). Research has also shown that councils should not underestimate the high costs incurred during selection and from managing the contract. Additionally, the provider will give you only what you ask for in the contract and will charge additional costs for anything unspecified. Therefore, the council needs to understand every aspect of the service and the requirements before outsourcing and writing a complete contract (Barthelemy, 2003a, p.93)

2.2 Tender process

The main objective of the tendering process is to ensure the “best fit” supplier is selected to supply goods and/or services to the customer, which offers best value for money (CIPS, 2013). The Procurement Manual for Works (PPOA, (2009) should guide tendering process of all public works in Kenya. The manual stipulates the clear procedures that have to be adhered to in the tendering process to provide public services. The outsourcing tender process is lengthy and detailed, and ranges from 18 months to 3 years (Cox et al, (2012). The open invite means that councils must evaluate and respond to all bids. This means councils must set clear requirements to enable companies to bid for the contract and make evaluation easier, which enables them to gain a more thorough understanding of the outsourcing requirements and make more informed decisions (Burnes&Anastasiadis, 2003, p.365). This structured process can allow the council to achieve best value through competition and write “fool-proof” contracts to minimize risk.

As cited by Cox, et al (2012), in the 1980’s the British

government introduced Compulsory Competitive Tendering (CCT), this “involved government or firms using a competitive bidding process to help decide who should have the right to produce or deliver goods or services” within the public sector (Rimmer, 1994, p.79). This process was driven by “marketing and political trends” with the aim of making the public sector more competitive (Marco-Simó, et al, 2007, p.51). It was assumed that market-based competition would be able to provide improved efficiency and lower cost whereas public monopolies provided no incentives to improve performance (Besley&Ghatak, 2003). However, traditional outsourcing contracts in the public sector were often granted to the lowest priced bidder, which can lead to lower quality provision. Thus, the government updated CCT in 1998 to focus on best value rather than simply lowest cost, whether internally or externally (Butler, 2003). Legislation stipulates that public sector agencies must make selection decisions based on best value rather than lowest cost (Butler, 2003). However, Burnes and Anastasiadis (2003, p.362) observe that local councils are legally obliged to outsource to the lowest cost bidder as long as they meet the minimum specifications for the contract.

3.0 Study Methodology

The study adopted a multiple case study approach. The case studies are based on fourteen cities in the USA and one from Germany. The cases comprise of outsourced contracts that are underway and some that have already been terminated. “A case study is an

empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009). A case study approach was chosen because this type of research is useful when ‘how’ or ‘why’ questions are being asked (Saunders et al, 2007, p.139). The use of multiple case study approach was motivated as Marco-Simó et al (2007, p.59) have argued that we need more “real cases” before “we can generalize the findings”.

As (Flyvbjerg, 2004, p.420) argues, case study approach allows an in-depth examination to develop an enhanced understanding of the subject area and develops areas for further research. Commentators agree that this method allows for a greater understanding of complex issues and is more comprehensive than surveys, due to its ability to “come closer....to the complexity of real organization setting” (Maylor& Blackmon, 2005, p.242). Yin (1984), cited by Gable (1994, p.113-115), believes that a single case study is useful in areas that are under-researched and require exploration, whereas multiple case studies are used to test for patterns and draw comparisons. The purpose of this enquiry was to explore a complex issue in-depth and to identify some common trends rather than to present a generalized industry view.

3.1 Case Studies

Outsourced project	Project outcome	Steps taken prior to outsourcing and lessons learnt
Washington D.C negotiated a 7 1/2 year contract with Affiliated Computer Services (ACS) to install and maintain 16,500 parking meters in 1999 ¹	<ul style="list-style-type: none"> From 1999 to 2005, almost 7,000 tickets were issued to vehicles parked at broken meters and the number of citizen complaints jumped from 3,652 to 89,840 ACS consistently failed to repair parking meters within the 72-hour period specified in the privatization contract During the 7 1/2 year period, ACS billed the District \$644,952 in bagged meter fees, which under the contract it was not entitled to, and received payment without any formal investigation 	<ul style="list-style-type: none"> No Risk- benefit assessment was conducted before outsourcing contract was initiated Auditor estimated that if parking meter management had been retained in-house for the seven year period, it would have cost the city \$8.8 million less than the contract with ACS Outsourcing contract failed to deliver desired results
Denver began a contract with Redflex Traffic Systems to administer its new red light traffic photo enforcement program in 2008 ² .	<ul style="list-style-type: none"> A few months into the contract, Redflex had failed to deliver key data and statistics required in the contract as well as provide support staff, maintenance reports, equipment certifications, and access to live video and still images. 	<ul style="list-style-type: none"> There were no clear, specific, and effective contract requirements established prior to onset of the contract The lack of data from Redflex has prevented Denver from knowing whether the red-light cameras actually deter traffic violations, the chief goal of the program
Texas negotiated a seven-year \$863 million contract with IBM to transfer state records to a centralized computer system ³ .	<ul style="list-style-type: none"> Temporary loss of half of 8 months worth of Medicaid fraud records Failure to meet server backup timeliness targets for which IBM was fined \$900,000 	<ul style="list-style-type: none"> Inadequate time spent negotiating and crafting the contract document to come up with clear guidelines IBM project overseers failed to implement the necessary checks and balances to ensure the project's security
Atlanta, GA outsources its records management functions after it lost its primary records storage facility with the projected sale of its City Hall East building in	Atlanta eliminated the need for its Records Management Division, while preserving City oversight of records management activities.	<ul style="list-style-type: none"> A Records Management Administrative Committee composed of representatives from various City departments was

summer 2009 In response, the City negotiated a \$150,000, 10 year contract with Iron Mountain, Inc. to store City records in a secure facility		<p>created to oversee the contract</p> <ul style="list-style-type: none"> Outsourced contract succeeded in delivering quality services at a lower cost 	sweeping services on select City streets.	effective to outsource this function rather than fully retain it in-house, given the significant cost of sweeper maintenance and labor.	
Richmond, VA has in recent months moved to privatize its municipal fleet operation ⁴	A May 2007 report by the City Auditor estimates a potential savings of \$2.6 million from contracting out these operations. In addition, the cities of Dallas, TX, Huntingdon Beach, CA, and Montgomery County, MD have each successfully outsourced select fleet management functions.	<ul style="list-style-type: none"> The initial request for information called for mandatory performance standards that would tie full payment to meeting time and quality performance benchmarks. Under a contracting agreement, the City would retain a fleet operations manager and staff to oversee and support the private operation while the contractor would be responsible for preventive maintenance, minor and major repairs, body repairs, tire inspection and replacement, and overall management of the operation. 	Philadelphia, PA recently contracted out operation of its waste treatment plant. Previously, the City experienced complaints about the odor and bad aesthetics of its sludge processing facility. In addition, the plant lacked the capacity to fully process liquid sludge into exceptional quality bio-solids and reuse the processed bio-solids effectively ⁵ .	In the end, the privatization is estimated to yield cost savings ranging from \$100 million to \$200 million over the life of the 23-year contract.	Under the terms of the contract, a contractor will take over plant operations and construct a new facility to convert treated waste into pellets that qualify as fertilizer for a broader range of uses.
New York, NY has partially outsourced its 311 municipal call center. In 2001, New York had 45 citywide call centers staffed by almost 1,000 employees. Due to the huge volume of calls to the system for a city of over 8 million people, New York outsourced a portion of call center operations to private vendors for peak periods.	New York found that using contracted call assistants reduces the need for costly permanent personnel during peak periods and services to non-English speaking City residents.	With the election of Mayor Michael Bloomberg in November 2001, came a complete reorganization of the City's call centers into a single 311 service-center.	Chelsea, MA has outsourced its entire parking enforcement operation. In 1992, Chelsea's parking enforcement program operated at a deficit and annual collections totaled \$150,000 ⁶ .	In 2006, after outsourcing parking enforcement, the City collected over \$1.5 million and received a net surplus of over \$1 million. The cities of Anaheim, CA, West Hollywood, CA, and Montgomery County, MD, have also outsourced parking enforcement and realized substantially increased revenues and a lower parking enforcement cost per hour.	Private operators are often more willing to invest in capital equipment and technology that eventually improve productivity and efficiency, thereby reducing cost.
Sunnyvale, CA completely outsources traffic signal maintenance. The preventive maintenance and repair of the city's traffic signals have been outsourced for over 10 years.	Due to outsourcing contract success, Newport Beach, CA and Lakewood, CA have also completely outsourced this function	The contract is subjected to a competitive bidding process every one to three years, and is overseen by the city's Division of Transportation and Traffic. Sunnyvale typically negotiates fixed price contracts and requires contractors to put up a performance bond, to protect the City against cost and performance risk.	Berkeley, CA uses private security guards at some city facilities. In 2005, the City contracted with Securitas Security Services, USA to provide security guards at two city office buildings ⁷ .	Berkeley has found it more cost effective to use a contractor to secure public buildings than have City employees provide service for very brief periods of time. Using contracted security guards has also allowed for the flexibility to absorb staffing reductions mandated by budget cuts, without the need to terminate unionized City employees. State governments of Kansas, New Mexico, and Missouri also use private security guards at state office buildings, due to the flexibility and cost savings offered by contracted security.	Clearly defined roles: The guards were responsible for monitoring traffic, providing information to visitors, directing citizens to appropriate city offices, and securing public restrooms at the end of the day
Dallas, TX outsources 60 percent of its street sweeping operations. In recent years, the City negotiated three year contracts for street	Dallas has seen its cost per gutter mile swept fall from \$20 in 2004 to \$17.44 in 2007. Many other cities have also found it more cost	City used a very competitive bidding process,	Washington, D.C. has partnered with commercial landowners to finance construction of a new transit station. In 1998, the government of the District of Columbia developed a Citizens	In the end, the project was projected to generate more than \$1 billion of total public-private investment and over 5,000 permanent jobs in the area around the new station.	In response, the District 's Department of Housing and Community Development and Department of Transportation worked with area commercial landowners to come up with a creative solution to

<p>Plan for Prosperity in the 21st Century that identified areas of the District in need of economic development. The Plan called for the construction of a new, in-fill Metro station at New York Avenue to spur development in the underdeveloped North of Massachusetts (NoMa) corridor.</p>		<p>finance the project's projected \$100 million cost. The landowners agreed to donate land for the new station and pay an annual development fee that generated \$25 million toward the project.</p>	<p>for the system was originally planned for August 31, 2003. The consortium failed to meet this date because the development of the system took much longer than all involved parties had originally expected. This was due to various reasons, including overly optimistic commitments by the consortium, insufficient feasibility checks by the government, and public and political pressure to stick with the original implementation schedule. The toll system finally became operational in January 2005 with a reduced set of functionalities and did not reach complete configuration until January 2006.</p>	<p>billion.</p>	<p>the consortium to meet. By conducting a much more thorough analysis, the parties could have avoided the material, commercial, and reputational damages caused by the long delay and the corresponding legal disputes.</p> <p>The legal proceedings are still ongoing.</p>
<p>San Diego, CA has introduced managed competition to a host of city services, including trash collection and street sweeping⁸.</p>	<p>Foundation estimates that with an expanded scope, the City has the potential to save \$80 to \$200 million per year through the program</p>	<p>Under Mayor Jerry Sanders' 2007 plan, private contractors compete with City staff for a range of non-governmental service contracts, including one-fifth of San Diego's trash collection routes. The City develops a Statement of Work and acquisition plan, and disseminates an RFP to a City agency and private vendors. An independent evaluation board, the Managed Competition Independent Review Board (MCIRB), evaluates the proposals to ensure a level playing field, and then recommends the "best value" proposal to the Mayor. The Mayor then either accepts or rejects the MCIRB recommendation. If accepted, he forwards it on to City Council for final approval.</p>			
<p>Indianapolis, IN began a managed competition process for fleet services in 1995. The City gave its Fleet Services Division (IFS) three years to prepare for a competitive bidding process.</p>	<p>By the end of the initial contract period, IFS had reduced its total costs by 35 percent and managed to successfully underbid all private vehicle repair firms that submitted bids.</p>	<p>IFS focused its efforts on implementing employee-generated reforms and strengthening its cost record-keeping and performance measurement system. These innovations enabled IFS to develop an accurate annual budgeting method and performance-based incentives. IFS also implemented a market-based rate structure for its customers, which resulted in the outsourcing of 20 to 25 percent of its work.</p>			
<p>In 2002, the German federal government signed a contract with a private consortium in which the consortium agreed to develop and install a satellite-based electronic toll road system by which road tolls for trucks using the German highways were to be calculated, monitored, and collected. The start date</p>	<p>In 2005, the German federal government started legal proceedings against the consortium, claiming contractual penalties and lost toll profits in a total amount of approximately €5 billion. The consortium raised counter claims for payment of retained fees in the amount of approximately €1</p>	<p>Based on the available information, it seems that if the federal government and the consortium had conducted a more detailed feasibility analysis, including the actual state of development of the system prototypes, they would have discovered that it was unrealistic to comply with the very ambitious timeframe that the government required</p>			

4.0 Recommendations

After critically evaluating the above case studies on public outsourcing, the study makes the following recommendations, which when fully adhered to can lead to successful replication and yield the same successful results on the Kenyan scene.

1. County governments should conduct training programs for their middle level managers and departmental heads on modern ethical procurement and procurement-management procedures to ensure streamlined public outsourcing procurement practice and eradicate elements of corruption in outsourcing process. Procurement monitors should also be introduced at various stages in the public procurement process to ensure that all public outsourcing arrangements are conducted acquiescently and the concerned

managers do not have conflict of interests. The Procurement Manual for Works (PPOA, (2009) should guide tendering process of all public works in Kenya.

2. County governments and the private service providers should conduct thorough feasibility analysis, including workable delivery timeframes and fully address “worst-case scenarios” before signing the outsourcing contracts and transferring service delivery functions. According to the Report of an Expert Panel, (2014), decision makers must have complete and reliable cost, benefit, and performance data for all functions and services targeted for outsourcing. It is also important to have an understanding of the services offered by potential providers, and of the underlying concept, technology, and financial cornerstones of their proposals.
3. Secondly, The decision makers must have clear goals, the scope of the outsourced contract, and the expected outcomes to enable them to effectively plan the major processes, tasks, and milestones, as well as appropriating the associated costs. As the Report of an Expert Panel, (2014) informs, proper scoping and planning is also important to attracting the right suppliers and setting reasonable expectations. Furthermore, Planners should try to seek advice from potential providers (e.g., at a pre-solicitation public meeting where all interested vendors are welcome) and other technical experts before drafting the

solicitation document. A useful practice is to publish requests-for-information (RFIs), which can provide the government with good understanding of the capabilities of the supplier community (Report of an Expert Panel, (2014).

4. Encourage competitive bidding during the tendering process to lower final cost. Match the scope of the contract to the market and to supplier availability to attract the highest number of quality bidders. As the Report of an Expert Panel, (2014) advocates, consider using a mix of public, private, and non-profit providers to avoid “thinning the market” during the contract term; and limit the use of excessively long contract terms while providing opportunities for contract renewal based on performance. After optimizing the supplier base and prior to awarding the contract, there should be a rigorous and objective evaluation of potential suppliers and partners with a view of selecting the “best” suppliers and partners. Seek all relevant information about the reputation, capabilities, and past performance of potential suppliers. A method for evaluating responses and selecting the winner should be in place, including clearly identified and ranked or weighted evaluation criteria.
5. After analyzing the above cases it’s clear that county government officials should devote sufficient time to negotiating and crafting the contract document. As (Cox et al, (2012)

argues, 18 months to three years should be ideal time for negotiating and crafting a contract. Final contracts should establish clear expectations, roles, and responsibilities. Review the appropriate contract term with due consideration for level of partners' investments, performance expectations, risk tolerance, prior performance, and cost associated with timing of renegotiation (Report of an Expert Panel, (2014).

II. CONCLUSION

County governments should conduct training programs for their middle level managers and departmental heads on modern ethical procurement and procurement-management procedures to ensure streamlined public outsourcing procurement practice and eradicate elements of corruption in outsourcing process. The Procurement Manual for Works should guide tendering process of all outsourced public works in Kenya. 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. Secondly, The decision makers must have clear goals, the scope of the outsourced contract, and the expected outcomes to enable them to effectively plan the major processes, tasks, and milestones, as well as appropriating the associated costs. The county governments should encourage competitive bidding during the tendering process to lower the overall cost. They should match the scope of the contract to the market and to supplier availability

to attract the highest number of quality bidders. The county government officials should devote sufficient time to negotiating and crafting the contract document to establish clear expectations, roles, and responsibilities.

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