BUSINESS PROCESS OUTSOURCING AND COMPETITIVENESS OF MANUFACTURING FIRMS LISTED IN TIIE NAIROBI STOCK EXCHANGE

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DECLARATION

This is my original work and has not been submitted to any institution or university for examination.

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(D61/P/9006/01) Irene Ndugi Ndungu

This project has been presented for examination with my approval as appointed supervisor

Signed: ________________ (O ^ i X * Date:

Dr. Martin Ogutu

DEDICATION

I dedicate my project to my ever supportive family.

I owe my deepest gratitude to my loving husband Ken Njoroge for his enormous support; both emotionally and financially. I sincerely thank him for his love and his undying belief in my capabilities

This project would not have been successfully completed without the love and patience from our two wonderful daughters Nina and Kayla Njoroge. I sincerely thank our little girls.

I am as ever, especially indebted to my parents, Mr. and Mrs. Ndung'u for their love and support throughout my life.

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Firstly to Almighty God who consistently reassures me that with Him all things are possible.

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ABSTRACT

The purpose of this study was to establish the strategic benefits and risks that accrue from business process outsourcing in the manufacturing industry in Kenya. This research problem was studied through the use of a descriptive survey design. The target population of this study was all the 18 manufacturing companies listed under the industrial and allied section of the Nairobi Stock Exchange as at 31st April 2009. The research employed a census method due to the small size of the population. All the 18 manufacturing companies listed under the industrial and allied section were included as study subjects. Primary data was collected using semi-structured questionnaires to CEOs of the selected companies. Data |Tom the questionnaires were entered into the Software Package for Social Sciences and analyzed based on descriptive statistics. The findings were presented using tables, pie charts and bar graphs for easier interpretation.

Findings from the study indicate that major strategic benefits arising from outsourcing non-core business processes in the manufacturing sector are the ability to focus on core business processes and flexibility. Findings from the study indicate that strategic risks arising from business process outsourcing include poor knowledge retention by suppliers, hidden costs and information security and privacy issues.

Findings from this research can have some implications for policy and also for the practice of business process outsourcing in Kenya. Business process outsourcing vendors will be required by their clients to eventually look like application service providers, offering open interfaces and process transparency. From the findings on the strategic benefits, clients will require BPO vendors to actually deliver innovation and optimize outsourced processes, not just running existing processes at a lower cost. The industry will also require some policy and regulations to streamline it, since it is in its infancy. However, BPO vendors will have to use business rules to expose the key decision-points within their processes whether or not they provide transparency in a more general case. The industry can also adopt the use of business rules management systems which would allow the outsourcer to expose these decisions to each of their clients while still running a standard, and black-box, process. BPO Best Practices should include choosing a vendor

that's leveraging technology effectively visibility into vendor's processes and platforms

CHAPTER ONE: INTRODUCTION

1.1 Background

As the business environment changes rapidly and competition becomes fierce, companies focus on their core competency and outsource non-core functions to outside vendors. Recently, companies are increasingly adopting Business Process Outsourcing (BPO) that outsources non-core business processes as well as supporting information technology (IT). Outsourcing decision is a version of make-or-buy decision in which an organization elects to purchase an item that previously was made or a service that was performed in-house (Monczka, Carter, Markham, Blascovich, and Slaight, 2005). It involves sourcing and using a supplier who provides the completed item or service rather than buying the components and manufacturing them in-house. Outsourcing is the act of transferring some of an organization's recurring internal activities and decision rights to outside providers, as set forth in a contract. BPO permits the company to focus on its core-competency by outsourcing constantly changing business processes and supporting IT (IJN, 2003). BPO can leverage provider's leading-edge technology as well as their economy of scale, gaining significant reduction in costs. One report indicated that the BPO market grows rapidly, with a revenue growth rate of 45-50 percent annually for the next several years (Yang, Kim, Nam, and Min, 2007). The lack of coordination among the tasks results in inconsistency and ineffectiveness in performance.

1.1.1 Business Process Outsourcing

Gartner Group (2004) defines BPO as the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics. BPO permits the company to focus on its core-competency by outsourcing constantly changing business processes and supporting IT (UN, 2003). BPO can leverage provider's leading-edge technology as well as their economy of scale, gaining significant reduction in costs and thus enhancing their competitiveness. In many years, overseas companies have been outsourcing their business Junctions to offshore sites. The outsourced business functions are ranged from manufacturing of parts in the automobile industry to the development of software in IT industry. In recent years, companies located mainly in the USA and

Europe are increasingly adopting offshore business process outsourcing (BPO) that outsources non-core business processes as well as supporting IT (information technology) to offshore vendors at a low cost in order to focus on their main core operations. In France, particular companies take their processes to offshore locations such as Tunisia, Romania, Russia, India, China, and Mauritius. The process usually outsourced ranges from sales/marketing, accounting/finance, human resource (IIR), information technology, to customer care processes (UN, 2003). Estimates and forecasts by many other research firms concur that in the next few years, BPO will continue to grow internationally, becoming one of the fastest growing e-commerce and e-business services. Increasing demand for BPO mirrors the growth of BPO services specifically in developing countries such as India and Eastern Europe. With an English-speaking skilled workforce and salaries up to 80 percent lower than in developed countries (Evalueserve, 2007), India has managed to capture 80 percent of the international outsourcing market (Le Monde, 2003).

1.1.2 Firm Competitiveness

Firm competitiveness is the ability to provide products and services as or more effectively and efficiently than the relevant competitors (Porter, 1996). This means sustained success in international markets without protection or subsidies. Although some advantages might allow firms from a nation to compete successfully in their home market or in adjacent markets, competitiveness usually refers to advantage obtained through superior productivity. Measures of competitiveness include firm profitability and regional or global market share. Performance in the international, local or regional marketplace provides a direct measure of the firm's competitiveness. Measures of competitiveness also include firm profitability and measures of cost and quality.

In industries characterized by foreign direct investment, the firm's percentage of foreign sales (foreign sales divided by total sales) and its share of regional or global markets provide measures of firm competitiveness (Porter, 1996). At the industry level, competitiveness is the ability of the nation's firms to achieve sustained success against (or compared to) foreign competitors, again without protection or subsidies. Measures of competitiveness at the industry level include overall profitability of the nation's firms in the industry, the nation's trade balance in the industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level. Competitiveness at the industry level is often a better indicator of the economic health of the nation than competitiveness at the firm level. The success of a single firm from the nation might be clue to company-specific factors that are difficult or impossible to reproduce. The success of several firms from the nation in an industry, on the other hand, is often evidence of nation-specific factors that might be extended and improved.

1.1.3 Business Process Outsourcing and Firm Competitiveness

Competitiveness is the broad way in which an organization seeks to maintain or improve its performance. This is relatively enduring and unlikely to change substantially in the short term (Brown and Wilson, 2005). A broad range of management research supports this contention. For example, the literature on population ecology argues that once an organization is established, so its structure and overall approach is set (Quinn and Hilmer, 1995), and a range of evidence indicates that organizations are relatively inert; once routines are set they are difficult to change (Weerakkody, Currie and Ekanayake, 2003; Yallof and Morgan, 2003).

Outsourcing specialty firms have made Business process outsourcing a viable, cost-saving strategy for companies. Business process outsourcing can affect firm's strategic competitiveness by enabling the firm to concentrate its administrative resources to core business; it can also use its resources to focus on competitiveness based on new value creation (Weerakkody, Currie and Ekanayake, 2003). To use BPO actively is to awaken to consistency with future strategic business shapes and making modules and visualizing new business. By this, it is possible to sure strategic selectivity, fast rising of new strategic businesses, and pointed investment of administrative resources to core business.

Porter (1996) argues that competitiveness is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a unique mix of value." In short, Porter argues that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. In his earlier hook, Porter defines competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." Thus, Porter seems to embrace strategy as both plan and position.

Zajac and Olsen (1993), argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Strategic marketing is crucial to an organization because it takes into consideration fundamental changes in the environment thus making firms proactive rather than reactive.

While various types of organizational strategies have been identified over the years, Business Process outsourcing is an emerging field where competitiveness can be enhanced. Outsourcing of core functions like engineering, research and development (R&D), manufacturing and marketing are being considered by corporations. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise will be more vital than the ownership of capabilities (Gottfredson, Puryear, and Phillips, 2005). Competitive pressures and the need for enlianced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide.

The option to transfer all or part of a company's business function to an external entity plays an increasingly important role in the strategic arsenal of organizations (Kakabadse and Kakabadse, 2003). Traditionally organizations considered outsourcing to rapidly improve performance and reduce operating costs. In the present era companies are using strategic and transformational outsourcing to seek improved business focus, mitigate risks, build sustainable competitive advantage and extend technical capabilities and free resources for core business purposes (Rartell, 1998). Competitive advantage can be gained when the most appropriate business processes are performed more effectively and efficiently by external suppliers (Lankford and Parsa, 1999). Organizations consider outsourcing nearly all the services they need - printing, legal services, accounting and hook-keeping, telecommunications, vehicle maintenance, security, payroll, recruitment and many others, thus restricting their own employees to the core functions that define the organization's business.

Industries are looking forward to BPO as a means to revitalize their organizations, reduce costs and build competitive advantage. The service provider owns, administers and manages the business process, based upon defined and measurable performance metrics with an objective to improve overall business performance. Globalization, competitive markets and mergers and acquisitions are the primary stimuli for BPO. The prime objective of BPO is to deliver the greatest value to all the stakeholders and to achieve and sustain the highest degree of productivity for an organization.

1.1.4 Manufacturing Industry in Kenya

Kenya has a large manufacturing sector serving both the local market and exports to the East African region. The sector, which is dominated by subsidiaries of multi-national corporations, contributed approximately 13% of the Gross Domestic Product (GDP) in 2007 according to Statistical Abstract (2008). Improved power supply, increased supply of agricultural products for agro processing, favorable tax reforms and tax incentives, more vigorous export promotion and liberal trade incentives to take advantage of the expanded market outlets through AGO A, COMESA and East African Community (EAC) arrangements, have all resulted in a modest expansion in the sector of 1.4 % per cent in 2007 as compared to 1.2% in 2006.

The manufacturing industry in Kenya is expanding in the areas of electronics, paper, metals and foundry, vehicle assembly, mining, wood products, plastics, pharmaceuticals oil products and others. Manufacturing sector is an area where investment opportunities exist. Initially developed under the import substitution policy, (here has now been a shill to export oriented manufacturing as the thrust of Kenya's industrial policy. The sector plays an important role in adding value to agricultural output and providing forward and backward linkages, hence accelerating overall growth.

The manufacturing sector now comprises of more than 700 established enterprises and employs directly over, 278,000 persons as at the year 2007. A wide range of opportunities for direct and joint-venture investments exist in the manufacturing sector, including agro-processing, manufacture of garments, assembly of automotive components and electronics, plastics, paper, chemicals, pharmaceuticals, metal and engineering products for both domestic and export markets.

Of the 700 enterprises in the manufacturing sector, only 18 are listed in the Nairobi stock exchange (Appendix iii). Manufacturing firms in the Nairobi stock exchange are listed under the agricultural and industrial and allied sections of the market. They range from big cement and related products manufacturers to maize millers. Most of the manufacturers deal in cement, oil and commercial gases. Some of these manufacturers are wholly publicly owned, like East African Breweries and Atlii River Mining, whereas others have government shareholding, like Kenya Power and Lighting Company (KPLC) and Mumias Sugar.

Kenya has an integrated pulp paper mill plant producing paper and paper board from renewable forest products. However, the country imports coated white lined chipboard and other boards for packaging, newsprint, printed paper and other types of paper. Textile, Garment and Apparel manufacturing has a very high potential in Kenya. The basic raw material inputs such as dyes and chemicals are imported, as are all textile equipment and most spare parts. Kenya has a basic metal sector making a variety of downstream products from local and imported steel scrap, steel billets and hot rolled coils. Kenya imports steel billets, coils, wire rod and wires, steel plates, sheets, steel scrap and pig iron. The country possesses a broad-based metal products sector with various independent engineering, foundry and metalwork workshops. The motor vehicle component industry is rapidly developing to supply the needs of a few motor vehicle assemblers to meet certain local content requirements.

Although Kenya's electronic industry is still at its infancy, a number of firms in the assembly, testing, repair and maintenance of electronic goods are in operation and are rapidly increasing their scope of activities to meet the growing demands of the industry. The plastics industry in Kenya is well-developed and produces goods made of polyvinyl chloride (PVC), polyethylene, polystyrene, and polypropylene. All materials are imported in the form of granules. With a labour force which is well-equipped to meet the labour skill requirements for the industry and the relatively large domestic and export market potential of electronics in the region, Kenya offers an enormous potential for (he manufacturing and assembly of all sorts of items.

1.2 Research Problem

Organizations now have a level of confidence in negotiating business process outsourcing contracts that are enabling far more to achieve strategic objectives. Increasing demand for BPO mirrors the growth of BPO services specifically in developing countries such as India and Eastern F.urope. More value added processes such as R&D are outsourced to more advanced countries with better skills and educations. Altogether, the growth of offshore BPO is attributed to a combination of various factors, including advances in network technology and high-speed data networks. Business process outsourcing considers external factors such as customer and market environment and internal factors such as business and marketing strategy, customer relationship, IT system and business culture. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise is more vital than the ownership of capabilities (Gottfredson et al., 2005). In the present era companies are using strategic and transformational business process outsourcing to seek improved business focus, mitigate risks, build sustainable competitive advantage, extend technical capabilities and free resources for core business purposes according to a study by Bartell (1998).

In Kenya much has been studied in the area of experiences of service quality and outsourcing. Mwaura (2002), Murugu (2003) and Njoroge (2003) have studied diverse industries including, Banking/Mortgage, hospitality, transport, port services and the

Matatu industry. Kirui (2001) and Motari (2002) researched on outsourcing but none of them linked outsourcing to competitiveness.

Industries are looking forward to BPO as a means to revitalize their organizations, reduce costs and build competitive advantage. But no research has been carried in Kenya to determine whether business process outsourcing contributes to firms' competitiveness. The prime objective of BPO is to deliver the greatest value to all the stakeholders and to achieve and sustain the highest degree of productivity and sustainable competitiveness for an organization. As Business Process Outsourcing is not so developed in Kenya, there is need to research in this area to give businesses more empirical data on BPO and its place in strengthening a firm's competitiveness. This study therefore sought to fill this gap by answering the following questions. What is the strategic advantage derived from business process outsourcing that enhances competitiveness? And what are the strategic risks involved in Business Process Outsourcing?

1.3 Research Objectives

The study was guided by the following objectives;

i) To establish the strategic advantage derived from business process outsourcing that enhances competitiveness

ii) To establish the strategic risks involved in Business Process Outsourcing.

1.4 Importance of the Study

It is widespread notion that BPO is performed on the contractual basis and thus market mechanisms are the RPO governance mechanisms. Companies in demand of BPO must make the right decisions about which BPO services to outsource and which services to retain in-house, precisely take into account the potential benefits and risks involved in BPO and calculate the long-term economic consequences they get from BPO. A decision to BPO may be driven by the need to reduce costs, improve flexibility to changing market conditions, focus on core competencies, access to skills and resources (ASR), improve service quality (SQ), or to achieve a combination of these benefits. However, these benefits can only be achieved if the outsourcing company selects its provider effectively

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and there is partnership in the process. Thus, BPO is strategically vital to companies that wish to remain competitive. Practitioners have realized this importance by spending money, time, and resources on these supporting management practices. However, many other firms have failed because of risks including loss of organizational learning, information security and privacy (ISP) problems in BPO arrangements, declining rate of innovation, low-performance rates, high-transaction costs, and other hidden costs (HQ that may significantly exceed initial capital estimates.

The study findings will therefore be important in helping established and upcoming Firms in finding out important considerations in a BPO Decision. This will guide them in making informed decisions in BPO. The findings will also help BPO vendors in having a glimpse of what outsourcers look for when selecting a BPO vendor. This will make the vendors improve on those areas to increase their competitiveness in the BPO field and also to improve their effectiveness in service provision.

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CHAPTER TWO: LITERATURE REVIEW

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2.1 Introduction'

Most large companies outsource some business activities, often support functions such as payroll processing and IT operations, but even marketing services and manufacturing. Within the past tew years, the pace of business-process outsourcing (BPO) has picked up dramatically, as companies have started to outsource broader business processes-particularly ones supported intensively by technology, such as human resources, finance and accounting, procurement, supply chain management, and customer care. Outsourcing business processes can significantly boost a company's strategic competitiveness - but only if companies do the homework needed to make the deal work.

2.2 Alignment of BPO Strategy with Business Strategy

Most advisors state that back office executives must align the business process outsourcing strategy with the business strategy. One of the first steps is to understand how the external services market can help achieve business strategy. Overall, Lacity, Feeny and Willcocks (2004) identified major benefits. Global outsourcing of back office services produces benefits ranging from operational improvements in back office costs to strategic commercialization by partnering with suppliers. In most instances, clients achieve the first five benefits - lower operating costs, improvement in services, tighter controls, access to supplier resources, and capabilities, and increased flexibility by ramping staff up and down to match fluctuating demand.

When considering an offshore destination for IT work, some CIOs did not just consider the best location from an IT perspective in terms of IT costs and IT services. Instead, these CIOs intelligently asked whether the business have or want to have a significant presence in that country. The CIO from one aerospace company selected Malaysia as their IT offshore destination because his company was selling planes to that country's government. The! Malaysian government as reported by Lacity and Rottman (2008) required that some of the manufacturing be done in Malaysia and the IT presence helped to meet that business requirement. Another CIO from a hardware company selected China because he knew his company wanted to sell their products there. One US CIO chose Canada because he wanted suppliers in close physical proximity to their external customers for rapid deployment.

Business process outsourcing as a key strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes. Companies have been outsourcing manufacturing operations, business services and even entire business lines successfully for a long time now (Graf and Mudambi, 2005). Recently, contract manufacturing sector has benefited with considerable outsourcing, initiated by the electronics and pharmaceutical industries. Business processes such as information technology (IT), payroll, logistics and human resources (HR) management are among the common ones regularly outsourced in most of the industries. Outsourcing of core functions like engineering, research and development (R&D), manufacturing and marketing are being considered by corporations. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise is more vital than the ownership of capabilities (Gottfredson et a!., 2005). Competitive pressures and the need for enhanced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide.

The option to transfer all or part of a company's business function to an external entity plays an increasingly important role in the strategic arsenal of organizations (Kakabadse and Kakabadse, 2003). Traditionally organizations considered outsourcing to rapidly improve performance and reduce operating costs. In the present era companies are using strategic and transformational outsourcing to seek improved business focus, mitigate risks, build sustainable competitive advantage, extend technical capabilities and free resources for core business purposes (Bartell, 1998). Competitive advantage can be gained when the most appropriate business processes are performed more effectively and efficiently by external suppliers (Lankford and Parsa, 1999). Organizations consider outsourcing nearly all the services they need - printing, legal services, accounting and book-keeping, telecommunications, vehicle maintenance, security, payroll, recruitment and many others, thus restricting their own employees to the core functions that- define the organization's business.

Firms essentially have three kinds of processes: core processes which give strategic advantage, critical non-core processes which are important but not competitive differentiators, and non-core non-critical processes which are needed to make the environment work. Outsourcing non-core processes frees the firm's time and resources for core competencies (Kakabadse and Kakabadse, 2003). As IT services are becoming commoditized the industry is looking forward to BPO as a means to revitalize their organizations, reduce costs and build competitive advantage. The service provider owns, administers and manages the business process, based upon defined and measurable performance metrics with an objective to improve overall business performance and competitiveness. Globalization, competitive markets and mergers and acquisitions are the primary stimuli for BPO. The prime objective of BPO is to deliver the greatest value to all the stakeholders and to achieve and sustain the highest degree of competitiveness for an organization's business units.

2.2.1 Factors Considered Before Business Process Outsourcing

Business Process Outsourcing is a burgeoning business generating billions of dollars in revenues and at least they are improving in efficiencies and cost savings for progressive organizations. Evaluating BPO decisions is not a well defined or structured problem in literature. Yang, Kim, Nam and Min (2007) proposed a decision-making approach for evaluating BPO decisions. First, a rational decision to BPO is to take into account careful examination of company's unique needs and expectations. Thus, both positive (benefits) and negative (risks) aspects of BPO must be carefully considered in the decision process. Second, the benefits and risks of BPO decisions are intangible in nature. Hence need to clearly and comprehensively analyze them qualitatively to arrive at an informed decision.

Outsourcing now has many dimensions to lit the globalized world we live in. Terms like 'offshoring,' 'insourcing' and 'shared services' are becoming part of business lexicon that defines the multitude of options a company has to improve its operations. The decision to outsource is often made in the interest of: lowering operational costs, redirecting existing staff energy to allow more direct attention on the core competencies of a particular business, or making more efficient use of labor, capital, technology and resources (Cullen, Seddon and Willcocks, 2005). The impact that Business Process Outsourcing has had on business over the past two decades is impressive. According to Plunkett Research, outsourcing will have reached approximately $900 billion as a global industry in 2010, Ivith the largest portion of revenue created in the logistics, sourcing and distribution services sector. The second largest sector is information technology services, including the creation of software and the management of computer centers. Another major portion lies in areas such as call centers, financial transaction processing and human resources management. Before a decision is reached to outsource, the management should pass through the following stages.

2.2.2 Managing Back Office as a Business

A firm should try first to improve its processes before thinking of outsourcing (Yang et al, 2007). Back office executives should first manage back offices as a "business within a business." A key concept here is that the organization's internal users are transformed into educated customers. Whereas users consume resources with little thought to costs, educated customers make informed choices about service levels, functionality and costs they incur. The identification and negotiation of internal service levels is an important practice to aid the transformation. Once complete, the shift from users to customers considerably empowers the back office executives to more meaningfully contribute to business objectives. Rather than responding to a user's request with, "I am sorry, it is not in my budget," the back office executive works with the customer to consider the business value versus costs of customer requests. External sourcing is another important part of running a back office as a business. Sound sourcing strategies begin with the assumption that any back office should be treated as a portfolio of activities and capabilities. Some of these activities must be insourced to ensure current and future business advantage and flexibility, while others may be safely outsourced.

2.2.3 Identifying Capabilities for Insourcing

Given that back offices should be treated as a portfolio, the next question then becomes which parts of the portfolio should be outsourced or insourced. While common wisdom tells managers to insource core capabilities and to outsource non-corc capabilities, the distinction is not very useful. A richer distinction is offered by Willcocks and Teeny (2006). They initially identified nine specific capabilities to keep in-house for IT functions. Their work has been cited hundreds of times and adopted by many large organizations. They later extended their capabilities model to nine specific capabilities to keep in house for any back office function. These capabilities include leadership, business systems thinking, internal customer relationship building, architecture design, informed buying, contract facilitation, contract monitoring, and supplier development. They also identified that all back offices need to keep a team of "process doers" to troubleshoot issues, to scrutinize supplier activities and proposals, and to understand emerging innovations.

2.2.4 Best Sourcing Non-Core Capabilities

Once the nine core capabilities are in place, it does not automatically mean that the remaining non-core capabilities should be outsourced. Clients who consider additional business, economic, and technical factors of non-core capabilities were most frequently satisfied with their sourcing decisions. Business factors consider a back office activity's contribution to competitive positioning and business operations. While very few back office activities serve to differentiate an organization's competitive positioning in the eyes of external customers, many activities may be crucial to effective and efficient business operations. Organizations can only outsource these activities with very close attention and care. Economic factors consider whether suppliers can truly perform the back office activity cheaper than in-house provision. Sound management practices like standardization are more important than economies of scale in keeping costs low. Many back offices will have more capabilities than the nine core capabilities identified above because suppliers cannot deliver the services cheaper than in-house provision. Finally, technical considerations include the degree to which the back office activity is integrated with other in-house activities. The ability to unbundle an activity for outsourcing is not

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always possible. For example, it may be difficult to outsource human resource activities when the IIR data is highly integrated with other applications according to Lacity and Willcocks (2001).

2.2.5 Following a Rigorous Outsourcing Process

Each of the core back office capabilities requires a significant number of specific competencies. Cullen, Seddon and Willcocks (2005) outline the specific competencies required for the four capabilities that deal with external sourcing - informed buying, contract facilitation, contract monitoring, and supplier development. They specifically identified 54 key activities that must be performed to ensure that outsourcing expectations are realized. The important notion here is that these four external sourcing capabilities entail vigorous management of external suppliers through the entire sourcing life cycle. Furthermore, each of the key activities requires yet another layer of detailed management, the supplier evaluation activity requires informed buyers to assess 12 supplier capabilities, including supplier leadership, program management, contracting, business management, governance, domain expertise, behavior management of supplier staff, technology exploitation, business process re-engineering, customer development, organizational interface design, and resource management (Feeny, Lacity and Willcocks, 2005).

2.2.6 Designing and Managing an Outsourcing Portfolio

Just as the back office provides a portfolio of services to internal customers, relationships with suppliers comprise a rich and diverse portfolio. There are three main issues here - governance, number of suppliers, and appropriate engagement models. Research has fount! that a strong program management office significantly contributes to the success of outsourcing. Unfortunately, many program management offices are woefully understaffed. Consequently, project managers are often forced to assume many of these roles, which overwhelm them and distracts them from their other duties. However, in mature organizations, program management offices are fully staffed and provide critical capabilities to ensure success. Mature program management offices fulfilled 15 roles:

evaluate sourcing locations, assess supplier capabilities, help to negotiate contracts, select engagement models, prepare the infrastructure, identify training needs for internal staff and supplier staff, design structural interfaces, design organizational processes, develop and monitor comprehensive metrics, authorize supplier invoices, resolve issues and conflicts, work with business units, diversify the supplier portfolio, monitor sourcing trends, gather and disseminate learning and best practices. These program management office's roles are described in Lacity and Rottman (2008).

Concerning the number of suppliers, outsourcing to a single supplier, particularly under circumstances of high asset specificity, is riskier than using multiple suppliers (Willcocks and Lacity, 2006). However, multi-sourcing creates higher transaction costs than outsourcing to a single supplier and too many suppliers means that each individual contract may be too small to successfiilly attract and excite good suppliers. Many clients have found that sourcing a particular activity to two preferred suppliers is sufficient to keep suppliers' prices competitive and work quality high. Concerning the types of engagement models, the key learning point is that an engagement model must fit not only with the type of work, but must also match the client's capabilities and the supplier's capabilities. For example, clients can only successfully engage suppliers on turnkey projects when clients have mature processes for defining and freezing requirements and suppliers have mature project management processes (Lacity and Rottman, 2008)

2.2.7 **Planning the Learning Process**

Each organization cannot fully bypass the learning curve based on explicit practices identified from other organizations - there is no substitute for the tacit knowledge that comes from actual experiences. Any organization that explores a new sourcing option in terms of new suppliers, new services, or new engagement models with existing suppliers must plan on false starts and many mistakes (Pfannenstein anil Tsai, 2004). Executives often manage learning by pilot testing new sourcing options. This is a risk mitigating practice, but when pilot tests are too small, the learning is slow, supplier capabilities are not fully tested, and expected benefits are not often realized which are attributable to transaction costs and supplier attention.

Concerning transaction costs, outsourcing lias considerable transition costs associated with supplier search, negotiation, coordination, management, and communication (Bartell, 1908). In order to achieve total cost savings, for example, the volume of work has to be large enough to compensate for the additional transaction costs. Of course, large commitments to suppliers must lie made cautiously, but the lesson may be that client managers should not expect significant cost savings while they are still conducting pilot projects and getting to know their suppliers. Concerning supplier attention, executives may not be able to attract the best suppliers or receive the supplier's best resources if initial pilot projects are too small. Suppliers must be confident that success on a pilot project will likely lead to a significantly sized contract.

After making the: decision to outsource, the organization should enter into Service level agreements (SLA) with the supplier. Yallof and Morgan (2003) identified the evolution of partnership as against contracts as the distinguishing feature of successful outsourcing relationships in the past. In order to match this trend, they underscored the importance of the use of appropriate metrics and SLAs for the success of BPO relationships. They also recommend agreements to be made on how SLAs would be changed in response to changes in market conditions as and when they happen. Quelin and Duhamel (2003) observe that contracts are becoming denser, as agreements become more sophisticated. Aron and Singh (2005) argue that as SLA metrics become imprecise / subjective, the operational and structural risk increase, reducing attractiveness of those processes for outsourcing.

2.2.8 Business Processes That Are Usually Outsourced

Outsourcing as a key business strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes (Brown and Wilson, 2005). Companies have been outsourcing manufacturing operations, business services and even entire business lines successfully for a long time now. Recently, contract manufacturing sector has benefited with considerable outsourcing, initiated by the electronics and pharmaceutical industries.

Business processes such as information technology (IT), payroll, logistics and human resources (HR) management are among the common ones regularly outsourced in most of the industries.

Transferring business processes to an outside provider to achieve cost reductions and improved service quality is a rapidly growing trend (Cullen, Seddon and Willcocks, 2005). Finance, accounting, IT administration, call center and offshore application development processes are increasingly being moved overseas or transferred to outside providers to improve the bottom line and increase service levels. In manufacturing industry, the processes that are usually outsourced are logistics, sourcing of raw materials and parts and distribution of finished products. For early stage manufacturing organizations, business process outsourcing is often mandatory to get the business off the ground. Some of the fundamentals include: Payroll processing, Benefits administration, Product/Service Agreements (Legal services) and Accounting functions (Financial services). For most organizations, it simply doesn't make sense to bring these functions internally when external experts can handle the tasks more efficiently.

In the growing global economy, IIR services are becoming increasingly complex and resource-intensive. Outsourcing specialists facilitate the client organization in developing MR strategies and policies, sourcing and selecting employees, leading and managing employees, creating rewards and incentive programmes, administering benefit and retirement programmes, and managing payroll (Feeny, Lacity and Willcocks, 2005). The end-to-end HR outsourcing model includes more strategic processes such as employee acquisition functions, these are, recruitment, pre-employment testing, temporary staffing in addition to optimization functions such as absence management, compensation or incentive planning and e-learning. This enables the HR department of the client organization on leveraging employee performance and supporting strategic initiatives.

F.stablished manufacturing firms are also outsourcing research and knowledge based activities. Knowledge Process Outsourcing (KPO) is the outsourcing of business, market, and/or industry research. KPO requires a significant amount of domain knowledge and analytical skills. KPO suppliers design surveys, collect new data, mine existing data, statistically analyze data, and write reports. Although the KPO market is currently small, industry analysts expect a huge growth in this sector over the next five years. For example, the Evalueserve (2007) evaluated the current offerings of the top 11 Indian suppliers and found that KPO is currently only 4 per cent of their revenues. However, this advisory firm predicts a rapid growth in KPO as suppliers cannibalize some of the onshore work and actively create demand for these services. Evalueserve (2007) estimated that the KPO market in 2007 was $3.05 billion and will grow annually by 39 per cent. They expect the KPO market to be $16 billion by 2010 or 2011 and will employ approximately 350,000 professionals globally.

The increase in KPO is directly related to offshore suppliers moving up the value chain. As client/supplier relationships mature, the suppliers have gained an enormous amount of knowledge about the client's business domain as well as the expertise to find, analyze, and report on domain knowledge. IJS, Canadian, and UK clients value this deep knowledge and will pay Indian suppliers $20-$100 per hour for KPO services, compared to onshore rates of $80-$500 per hour (Gottfredson, Puryear and Phillips, 2005).

Manufacturing firms have long leveraged outsourcing and offshoring; low-value services such as janitorial work have been outsourced for quite some time. However, business services have traditionally been more location-bound due to inherent characteristics like intangibility and need for co-production. A variety of recent developments, such as innovations in information technology (IT) and newer managerial practices have enabled unbundling of production and consumption of these services. Firms can now unbundle their value chain, distribute unbundled discrete processes to optimal service teams/locations and then assemble "serviced" processes. This unbundling can be either "vertical" - of processes that are input to firm's product/service in the market, or "horizontal" - of corporate processes such as finance and accounting (F&A) (Sako, **2006).**

2.2.9 Business Process Outsourcing Practices

Outsourcing initially began with large organizations outsourcing all of their data center operations with an objective of achieving significant cost arbitrage (Pfannenstein and Tsai, 2004). Then followed the era of transitional outsourcing in the early 1990s wherein host organizations sought expertise of the IT specialists in developing new client/server systems while still maintaining their legacy systems. As service providers understood the functions of a data center, desktop support and other standard IT areas, they began in specializing in specific domain intensive functional areas. This marked the beginning of BPO.

2.2.9.1 Levels of Business Process Outsourcing

There are three levels of outsourcing namely tactical, strategic and transformational (Brown and Wilson, 2005). Tactical outsourcing is used by organizations to resolve specific problems being experienced by a firm, these are, a lack of financial resources to make capital investments, inadequate in-house managerial competence or a desire to downsize. Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. The tactical outsourcing results in visible benefits in the Torm of enhanced cash savings, minimizing the need lor future investments and resolving staffing issues. It involves execution of a business process following the existing rules. Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor (Ilussey and Jenster, 2003). This is a common method used by large mature corporations for handling high-volume repetitive tasks. This is used for processes such as payroll transactions, 11R administration and procurement.

Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions (Monczka et al, 2005). Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers.

Transformational outsourcing is commonly used to redefine the business (I.inder, 2004). It enables an organization to retain leadership position, build sustainable competitive advantage and generate highest value lor an organization. Some issues addressed by transformational outsourcing are good governance, maturity of business process knowledge and adequately drafted and monitored SI,As. The levels of risk in strategic and transformational outsourcing are higher than tactical form, but are commonly shared with the outsourcing partner. Tested risk mitigation plans, high-security levels, mature project management skills and proven business continuity plans need to be put in place before an arrangement can begin in this direction.

2.2.9.2 Forms of Business Process Outsourcing

Outsourcing can either be inshore or offshore. Offshoring refers to the rapidly growing tendency among big companies in countries like U.S., Japan and Western European to send both knowledge-based and manufacturing work to third-party firms in other nations (Lankford and Parsa, 1999). The intent is to take advantage of lower wages and operating costs in such nations as China, India, Hungary, the Philippines and Russia. Insourcing refers to situations where an outsourced services provider moves into, and sets up shop in or near, a client company's facility. For example, it is common for major companies to sign agreements with IBM Global Services, EDS, Perot Systems and other outsourcing firms whereby th^se firms take over and operate a client's internal computer department.

In many years, companies have been outsourcing their business functions to olfshore sites. The outsourced business functions are ranged Irom manufacturing of parts in the automobile industry to the development of software in IT industry. In recent years, companies located mainly in the IJSA and Europe are increasingly adopting offshore business process outsourcing (BPO) that outsources non-core business processes as well as supporting IT (information technology) to offshore vendors at a low cost in order to focus on their main core operations. In France particular, companies take their processes to offshore locations such as Tunisia, Romania, Russia, India, China, and Mauritius. The process usually outsourced is ranged from sales/marketing, accounting/finanee, human resource (HR), information technology, to customer care processes (UN, 2003).

Estimates and forecasts by many other research firms concur that in the next few years, offshore BPO will continue to grow internationally, becoming one of the fastest growing e-commerce and e-business services.

Captive offshoring is used to describe a company-owned offshore operation. For example, Microsoft owns and operates significant captive research and development centers in China and elsewhere. The goals of captive offshoring include greater company control through direct ownership, along with lower operating costs and the ability to utilize highly educated local workforces (Kakabadse and Kakabadse, 2003).

Offshoring and outsourcing have a synergistic relationship. The traditional model for insourcing keeps the work in-house and onshore. Manufacturing work during the 1080s began to migrate to areas that offered lower labor costs. Manufacturing moved from expensive urban areas to rural areas offering relatively cheaper land, tax incentives and holidays and skilled manpower at lower wages (Weerakkody, Currie and Ekanayake, 2003). In their quest to achieve a higher cost arbitrage, global corporations started moving their internal manufacturing, operations, and service functions such as call centers and back-office processes to lower-cost countries while keeping them in-house as company-run operations. This move is motivated by a desire to be closer to and gain improved access to foreign markets in addition to pursuit of low-cost operations.

Companies have also started to outsource non-core activities to local or regional suppliers who provide specialized expertise and lower costs. The rise in the IT outsourcing, contract manufacturing and third-party logistics industries highlights this activity. The latest trend among multinationals is to get the work simultaneously outsourced and offshored to countries namely India and China, with other preferred destinations for outsourcing being Philippines, Brazil, Ireland and the Czech Republic (Monczka, Carter, Markham, Blascovich and Slaight, 2005). A well-defined strategy is the key to maximizing the benefits of outsourcing while avoiding its pitfalls. In most outsourcing engagements the service provider agrees to execute the process at a cost lower than what the host organization is currently incurring and agrees to accept a service target in excess of what the host organization is achieving. These are called service level agreements **(SLAs).**

2.2.10 Benefits Derived From Business Process Outsourcing

Organizations are continually under competitive pressures and forced to re-evaluate their business models and underlying business processes. Business processes represent a core of the functioning of an organization because the company primarily consists of processes, not products or services. In other words, managing a business means managing its processes (McCormack and Johnson, 2001)- The documented advantages of BPO are; enabling the client **firm** to focus on core competencies, giving the client Flexibility, having Access to wider skills and resources, Service quality and Product and process innovations. Processes and competencies that do not have significant strategic value to a firm are prime candidates for BPO (Mouhalis, 2006). It is already recognized that firms which focus on core activities and competencies, are in a better position to compete effectively in the market. BPO can **improve** Flexibility and responsiveness in meeting market needs and business requirements. (Weerakkody et al., 2003)

2.2.10.1 Enhancing Business Performance

Theoretically, the benefits that BPO brings to an organization are numerous. It affects the soft side of organizations as well as the bottom line figures. Some of the benefits reported in the literature are: cost savings through a more efficient execution of work, reduced cycle times, improved customer focus, better integration across the organization, increased flexibility of the firm along with improved customer satisfaction, elimination of redundant, and duplicated activities (CJalbraith, 2002). Implementing BPO as a way of organizing and operating in an organization will improve internal coordination and break down the functional silos that exist in most companies (McCormack and Johnson, 2001).

While the literature presents more than a plentiful supply of benefits of BPO, their empirical confirmation is scarce. In their seminal work, McCormack and Johnson (2001) conducted an empirical study to explore the relationship between BPO and enhanced business performance. The research **results** showed that BPO is critical in reducing contlict and encouraging greater connectedness within an organization, while improving business performance. Their results indicate a surprisingly strong relationship between BPO and overall performance. Furthermore, the more business process oriented an organization is, the better it performs both from an overall perspective as well as from the perspective of the employees.

2.2.10.2 Access to Specialized and Global Best Practices

Outsourcing can empower organizations to use global assets effectively and efficiently by using the industry best practices in enhancing their value chain and enter and create new markets (Farrell, 2004). By the very nature of their specialization, outsourcing providers bring extensive world-class resources to meet the needs of their customers. Partnering with an organization with world-class capabilities can offer access to new technology, tools and techniques that the organization may not currently possess; more structured methodologies, procedures and documentation; and a competitive advantage through expanded skills. Outsourcing enables the organization to consistently perform functions better that its competitors and continually improve on the activity as markets, technology and competition evolves (Quinn and Hilmer, 1995). Host organizations thus are empowered to deliver higher value-added services to their customers. Manufacturing knowledge-based organizations benefit in R&D, product design, process design, logistics, market research, advertising, marketing, distribution and customer services.

2.2.10.3 Access to Current IT Practices and Processes

Outsourcing IT allows companies to use a large number of computing resources on demand, no matter where they are located. Grid computing by suppliers enables organizations to rliove faster, improve flexibility and resilience, bolster productivity and enhance collaboration on a global level (IBM Grid Computing, 2004). Grids let an organization draw on resource pools within and, in some cases, outside the organization to accomplish a given computing task. Organizations can take collective advantage of improvements in microprocessor speeds, optical communications, raw storage capacity, and the internet. By using the technique to disaggregate their computer platforms and distribute them as network resources, companies can vastly increase their computing

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capacity. For example, companies are using grid computing to accelerate the pace of drug development, process complex financial models, and animate movies. Linking geographically dispersed computer systems can lead to staggering gains in computing power, speed, and productivity. Due to economies of scale, vendors are capable of modernizing their IT regularly at lower unit costs thus giving host organization the most current and efficient IT solutions.

With global businesses becoming more competitive, the cycle time for introducing products and services has become shorter and customers are more demanding with respect to the quality of products and/or services provided. This has forced enterprises to adopt systems and business models that will not only provide operational efficiency, but also add strategic value to their products and services. Knowledge and decision services encompass content solutions, e-Ieaming and education solutions, project management, supply chain management, decision support systems, data warehousing, data mining, and data analytics. This delivers high value to organizations by providing domain-based processes and business expertise rather than just process expertise. These processes demand advanced analytical and specialized skill of knowledge workers that have in-depth domain expertise (Yang et al, 2007).

2.2.10.4 Ability to Concentrate On Core Activities

Outsourcing enables host organizations to build flexible long-term platforms capable of adaptation or evolution. Many organizations focus on building skills in narrow areas where they currently excel. To keep pace with the emerging market dynamics outsourcing allows host organizations to buy technology from a vendor that would have been financially intensive and difficult to build internally (Lankford and Parsa, 1999).

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Operations support services are crucial to the success of any organization in the dynamic marketplace today. This includes critical services for re-engineering, facilities management, global delivery and sourcing and logistics and dispatch services. These capabilities are directed towards improving efficiency of the operations in the host organization. Back office transaction processing is an important sector in shared services, which is responsible for performing prime tasks such as transaction processing, payment processing, forms management, general transaction processing anil accounts receivables processing. Service providers handle large volumes for multiple clients in the shared facility and thus provide the client with economies of scale, process maturity, higher quality and faster turn around times (Willcocks and Feeny, 2006). This enables the host organization to acquire capabilities to drive their front-end tasks by a powerful back office engine

Marketing services forms an important function of several organizations. A whole host of services can be outsourced under this. Client organizations acquire capabilities in executing marketing programmes, printing and publishing, advertisement, sales and sales management, strategic planning, business communication, publications and web development. This ensures enhanced levels of success for the client organization in addition to higher value addition to the customer and shorter time to market (Graf and Mudambi, 2005). Customer interaction services require unique set of capabilities that facilitate the building of customer contact centers, enable Customer Relationship management and telesales, warranty administration, order processing, and customer feedback. These are important capabilities a host organization in the services sector must acquire for sustainable competitive advantage. Information technology and software services form the backbone of any organization in today's era. Capabilities can be acquired to facilitate application and systems development, ERP implementation, fortifying cyber-security, providing infrastructure support and database management. Additionally, capabilities on the finance and accounting services domain can strengthen the market leadership position of the host organization. The capabilities can encompass general accounting and audit, compliance, accounts payable and receivables, management reporting, credit and tax services, insurance processing and billing systems. Outsourcing these repetitive and IT intensive activities allows staff to focus on core business functions such as product development, service delivery, partnership building, thus reducing growth risk since external costs are easier to reduce than staff and increasing flexibility, that is, ability to adapt to changing market conditions quickly (Sako, 2006).

2.2.10.5 Cost Management

The rationale for buying external business process management as a service is well documented. Benefits include gaining access to expertise in units versus staffing an entire function internally (reduction in cost). The big question that must be answered is which of the decisions is the most cost effective. Cost Savings seem to be the main reason companies want to undertake BPO (Udo, 2000). Achieve cost reductions is the aim of every company aiming at remaining competitive in today's business environment. Through BPO, companies can eliminate unnecessary operating costs while reducing and bringing other administrative costs under better control through re-engineering, process improvements and implementing advanced technologies.

2.3 Strategic Risks that Arise From Business Prnccss Outsourcing

Companies in demand BPO must make the right decisions about which BPO services to outsource and which services to retain in-house, precisely taking into account the potential risks involved in BPO and calculate the long-term economic consequences they get from BPO. A decision to BPO may be driven by the need to reduce costs (Udo, 2000), improve flexibility to changing market conditions (Pfannenstein and Tsai, 2004), focus on core competencies (Weerakkody *et al.,* 2003), access to skills and resources (kinder, 2004), improve service quality (Hussey and Jenster, 2003), or to achieve a combination of these benefits (Galbraith, 2002). Thus, suitable BPO is strategically vital to companies that wish to remain competitive. Practitioners have realized this importance by spending money, time, and resources on these supporting management practices.

However, many other firms have failed because of risks include loss of organizational learning (Gartner Group, 2004), information security and privacy problems in BPO arrangements (Farrell, 2004), declining rate of innovation (Mouhalis, 2006), motivation loss of remaining employees (Aron and Singh, 2005), low-performance rates, high-transaction costs, and other hidden costs (Willcocks and Feeny, 2006) that may significantly exceed initial capital estimates.

2.3.1 Misalignment of BPO Strategy with the Business Strategy

Before outsourcing can he successful, the client organizations must resolve some of their ovvn enduring challenges (Aron and Singh, 2005). In many large organizations, the back offices are not truly aligned with the business. While senior executives may use the rhetoric of the "vital role" back offices provide, they still treat back offices as cost burdens.

Besides the clout of the back office manager, other structural issues must also be addressed before back offices can be aligned with the business (Lacity and Rottman, 2008). For example, large companies that have grown through mergers and acquisitions have typically neglected the back offices, resulting in a large number of low-stature back offices within each business unit. Back offices that are structured as centralized shared services for transactional activities and decentralized business systems thinkers and relationship builders for strategic activities can help alignment.

2.3.2 Misalignment of Supplier and Client Needs

The issue of strategic alignment between clients and suppliers has been a largely unresolved issue. Incentives are clearly mis-aligned because every dollar out of a client's pocket typically goes into the supplier's pocket. Clients are incented to demand more services from the supplier without wanting to pay more. Suppliers are incented to squeeze as much profit from existing contracts or to sell additional services to increase revenues.
During the 1990s, clients and suppliers attempted to resolve this issue with strategic partnerships and joint ventures. The idea was that the supplier investor would sell the client's assets or excess capacity to third parties and share the revenues with the client. Examples of these deals included Swiss Bank and Perot Systems, Xerox and EDS, and Delta Airlines, and AT&T. These deals did not work as planned. The suppliers had their plates frill just servicing the client investors' internal needs (McCormack and Johnson, 2001). In addition, clients frequently oversold the value and portability of their assets. The deals we studied all reverted to fee-for-service relationships or were completely terminated.

The most innovative alignment is the enterprise partnership model described **by** Lacity *el* ul., (2004). With an enterprise partnership, a client and supplier create a jointly-owned enterprise that first transforms the client investor's back office services, then seeks to commercialize the renovated services. With this model, the supplier initially only earns a profit based on the cost savings it delivers to the client investor.

2.3.3 Information Security and Privacy

In the outsourcing market, knowledge transfer has been one of the biggest impediments to success. With offshore outsourcing, clients do not typically transfer knowledgeable employees to the supplier like they typically do in large-scale domestic outsourcing (lido, 2000). Clients complain that offshore employees have little understanding of their business domains. It is quite expensive to train offshore supplier employees, and the threat of supplier turnover and loss of Information Privacy (IP) is high.

The best ways to transfer knowledge is to invest in social capital. Social capital is simply the idea that knowledge and resources are exchanged, work gets done, and value is created through social relationships. Our research found specific practices for building social capital by laying foundations of trust, creating shared systems of meaning among parties, and designing social linkages between client and suppliers. These practices show managers how to invest the right amount of social capital to ensure that they get overall value from offshore outsourcing in terms of quality and speed without completely eroding cost savings and without giving away too much IP (Quelin and Duhamel, 2003). Many companies view their IP as a puzzle. By distributing small pieces among many suppliers, no one supplier can assemble the puzzle on their own. One CIO said that his organization kept a very tight rein on where it's IP is and who has it. Many clients never let any one development team or any one vendor see too much at one time. Many clients feel it would be impossible for their IP to be lost through offshore sourcing.

2.3.4 Poor Knowledge Retention by Clients

Whereas the challenge of information privacy focused on knowledge transfer, this challenge focuses on the client's knowledge retention. After the first few years of a large

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outsourcing contract, the client's knowledge retention can dramatically erode through attrition. While all organizations deal with turnover, clients that extensively outsource have a smaller pool of talent to retain and develop. We have increasing heard clients asking where the next generation of their project managers will come from. While the core capabilities model by Feeny and Willcocks (1998) addresses what types of talent to nurture, there are unresolved 11R management issues associated with its implementation. These include questions on how client organizations can pay suppliers enough to compete with service providers; how client organizations can consistently provide suppliers and their employees with the level of challenge they look for in the job; and how client organizations can provide supplier employees with a career path despite the very small numbers. Both client and supplier organizations have failed to successfully deal with all these issues to lower the level of dissatisfaction and turnover in supplier organizations.

2.3.5 Building Long-Term Relationships

During the past 15 years, a number of pundits have referred to outsourcing relationships as marriages. With that analogy, clients and suppliers perceive each other as seductive partners during the wooing phase, enthusiastic partners during the honeymoon phase, then bored partners during the "seven year itch. Willcocks and Lacity (2006) called this later phase the "mid-contract sag", and they found that it usually occurs in year three, not seven. The mid-contract sag occurs alter the supplier has dispensed all their transformational levers (consolidation, standardization, reduced headcount, better technology, and better processes). The suppliers' transformation leaders typically move on to new challenges on new accounts. The remaining stalT on both client and supplier sides are either too exhausted or lack ideas for launching new rounds of transformation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter considers in detail the methods that were used to collect any primary data or secondary data required in the study. In this chapter, the researcher also discusses the research design, population size and sample that were used. The researcher also discusses how this data was analyzed giving details of any models or programmes that were used in analysis with reasons as to why these particular models or programmes were used.

3.2 Research Design

This research problem was studied through the use of a descriptive survey design. It was important to enable comparison regarding business processes that are outsourced and competitiveness achieved from outsourcing in the industry. The comparison was done among firms in different categories, ages and sizes. This design was also appropriate because it enabled the collection of a broad category of data of manufacturing firms that are listed in the NSE and describe patterns on how BPO was applied. Descriptive research portrays an accurate profile of events or situations surrounding outsourcing of business processes in the targeted companies. According to Angus and Katona (1980), it is this capacity for wide application and broad coverage which gives the survey technique its great usefulness.

3.3 Target Population

The target population of this study was all the manufacturing companies listed under the industrial and allied section of the Nairobi Stock Exchange as at 31^{sl} April 2009 (www.nse.co.ke). There were 18 manufacturing companies in Kenya listed at the Nairobi stock exchange and all of them formed the target population.

The research employed a census method due to the small size of the population. All the 18 manufacturing companies listed under the industrial and allied section were included as study subjects.

3.4 **Data Collection**

The study used both primary and secondary data. Primary data was collected using semi-structured questionnaires (Appendix II) to CEOs of the selected companies, while secondary data was in form of literature review and other secondary information contained in books, journals and other relevant secondary sources. The questionnaire was the chief data collection instrument. The questionnaires were distributed to the CTO of each company since he/she was the one who must be involved in all strategic issues affecting the company. This resulted to a total of IX questionnaires being distributed to all the targeted companies. The questionnaire was designed to address the research questions. The questionnaire was divided into three sections; A, B and C. Section A addressed the general information about the CEOs and the organization. Section B addressed the specific objective about determining strategic benefits derived from BPO while section C dealt with questions about strategic risks associated with BPO. The questionnaire consisted of both open and close-ended questions. They also consisted of Likert type questions that were intended at weighing perceptions of respondents on the variables under study.

The researcher distributed the final questionnaire to the CEOs through contact persons in the companies. An introductory letter accompanied the questionnaires so as to give authenticity to the research and explain the purpose of the survey. The researcher requested the questionnaires to be filled and collected as arranged and communicated.

After designing the questionnaire, the researcher tested the effectiveness of the questionnaire on 3 senior employees from the companies. Respondents were required to critique the questionnaire on content, design and validity. This pretest was done to detect and correct any weaknesses in the questionnaire. After the pretest, the researcher made any amendments that were necessary.

3.5 **Data Analysis**

The data and information obtained through the questionnaires was first checked for completeness and consistency. The questionnaires found correctly filled and fit for

analysis were coded and all the data entered into statistical package for social sciences and analyzed based on descriptive statistics. The descriptive statistics that was used included mean scores, percentages and ratios. Percentages were used to analyze the business processes that were outsourced as per the lirst objective. Mean scores were used to determine the magnitude of competitiveness achieved from business process outsourcing as well as the magnitude of the challenges that manufacturing firms faced as a result of BPO. These were then presented using tables, pie charts and bar graphs for easier interpretation.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the analysis and findings from the data collected from the field hased on the specific objectives. The research study was guided by two objectives; i) to establish the strategic advantage derived from business process outsourcing that enhances competitiveness and ii) to establish the strategic risks involved in Business Process Outsourcing. The analysis was done through frequencies, percentages and mean scores and the findings presented in form of tables, charts and graphs.

4.2 Demographic Information

Of the 18 questionnaires distributed to the CEOs of the 18 manufacturing companies listed in the Nairobi Stock Exchange, 14 were successfully filled and returned indicating a 78% response rate. The researcher had posed a question on when the company started operations. Responses indicated that the companies' years of inception ranged from 1904 for Unga Group to 1998 for Kenya Electricity Generating Company (KenGen). On the number of employees, the responses showed that the companies had employees ranging from 250 for East African Cables and 6400 for Kenya Power and Lighting Company. A general question was posed on whether the company has ever practiced business process outsourcing. All respondents indicated in the affirmative indicating that all the companies were or had at one time practiced BPO.

4.3 Strategic Benefits Arising from Business Process Outsourcing

The research study sought to establish whether there was any strategic advantage arising from Business Process Outsourcing. Data to fulfil this objective was collected using a likert rating scale. Closed ended questions were also used to collect data to fulfil this objective. Rating was done on a five point scale. No Extent was given a score of 1, while Very great extent was given a score of 5. Data from likert scale rating was analyzed through mean scores while data from the Yes/No Questions was analyzed through percentages. The higher the mean score the greater was the benefit and vice versa. Respondents were required to rate the extent they perceived their company to have received the stated strategic advantages from business process outsourcing. Results are presented in Table 4.1.

Table 4.1: Strategic Benefits From BPO

Strategic Benefits	Mean Score	SD
Focusing on Core processes	4.43	1.08
Flexibility	4.36	1.38
Having access to wider skills	3.93	1.43
Better service and product quality	2.50	1.23
Better Consumer relationship management	2.36	1.78
Improved system-wide efficiency	3.86	2.17
Gain marketing advantages	3.93	2.53
Grand Mean	3.62	1.64

N = 18

Source: Survey Data (2009)

Table 4.1 indicates that the greatest strategic benefits arising from outsourcing some business processes in the manufacturing sector are the ability to focus on core business and flexibility. These strategic benefits received mean scores of 4.43 and 4.36 respectively. The strategic benefits which were least realized by manufacturing firms from **BPO** were better service and product quality, and better consumer relationship management. The mean scores for these were 2.50 and 2.36 respectively.

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4.3.1 Nature of Processes Outsourced

The researcher also sought to establish the nature of processes that were usually outsourced by manufacturing firms in Kenya. Respondents were required to indicate among the listed processes which their organizations usually outsourced. Findings are presented in table 4.2.

Table 4.2: Nature of Processes Outsourced

Process	Frequency	Percentage
Drafting and architectural services	3	21
Contact centres	4	29
Software development	10	71
Data transcription services	6	43
Data entry services	6	43
Human Resource	9	64
Payroll or Benefit Administration	5	45
Logistics and distribution	1 1	79

N = 18

Source: Survey Data (2009)

The table indicates that logistics and distribution, and software development are the services which are usually outsourced in the manufacturing sector of Kenya. These were outsourced by 79% and 71% of the firms respectively. The processes which are least outsourced are drafting and architectural services and contact centres. These processes were outsourced by 21 and 29% of the surveyed firms.

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4.3.2 Considerations When Making an Outsourcing Decision

The researcher also sought to establish the factors the manufacturing companies considered when choosing a vendor to provide services in a business process. Findings were analyzed through mean scores are presented in the table 4.3.

Table 4.3: Considerations When Making an Outsourcing Decision

Factor	Mean Score	SD
Quality	4.93	1.11
Experience	4.21	1.56
Honesty	4.14	1.58
Reliability	4.50	1.60
Fairness	2.36	2.24
Trust	4.64	0.77
Turn around time	4.50	1.65
Grand Mean	4.18	1.44

N = 18

Source: Survey Data (2009)

Findings presented in table 4.3 indicate that the biggest considerations made by the surveyed manufacturing companies before choosing an outsourcee are quality of the service and level of trust of the vendor. These pre-considerations received mean scores of 4.93 and 4.64 respectively. Factors least considered are fairness and honesty of the vendor which received mean scores of 2.36 and 4.18 respectively.

4.3.3 Importance of Service Delivery Factors

The study investigated the important service delivery factors that the manufacturing companies considered in choosing a vendor. Data from this question were analyzed using mean scores and findings were as presented in table 4.4.

Tabic 4.4: Importance of Service Deliver)' Factors

Factor	Mean Score	**SD**
Project management	4.71	2.78
Data Security	4.57	2.00
Performance benchmarks	4.64	1.25
Contract administration	4.50	1.48
Tum .wound time	5.00	0.00
Delivery costs	4.86	0.75
Grand Mean	4.71	1.38

N = 18

Source: Survey Data (2009)

Findings presented in table 4.4 indicate that when entering into an agreement with a vendor about outsourcing a business process, the most important service delivery factors stressed in the contract are Turn around time and delivery costs. These factors scored a mean of 5 and 4.86 respectively on a scale of 5. All other listed factors were also greatly valued since they scored a mean of 4.5 and above on a scale of 5.

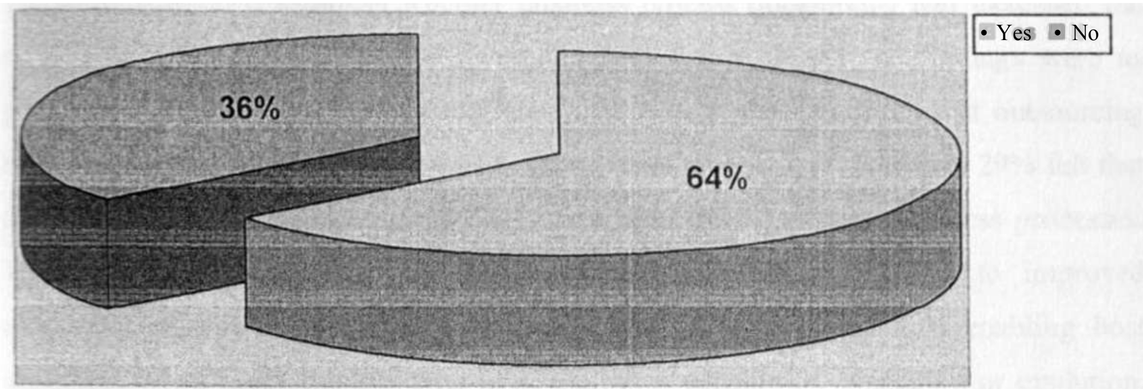
4.3.4 Most Critical Service Delivery Factors

The study sought to establish the most critical service delivery factors considered in an outsourcing engagement. Responses indicated that transaction costs, quality, turn around time, observing security and privacy of information and adhering to the Service I.evel Agreements were the most critical service delivery factors in the surveyed manufacturing companies in Kenya. Firms' aim at receiving the supplier's best resources and commitment and be provided with service that is equal or superior in quality to what was provided in-house.

4.3.5 Requirements for Vendor Training

The study sought to establish whether the manufacturing companies required their vendors to have any special training before signing a contract or giving them business. Responses were analyzed and presented in figure 4.1. Findings indicate that 64% of the surveyed manufacturing companies required their vendors to have training that is necessary to deliver the service in question.

Figure 4.1: Requirements for Vendor Training



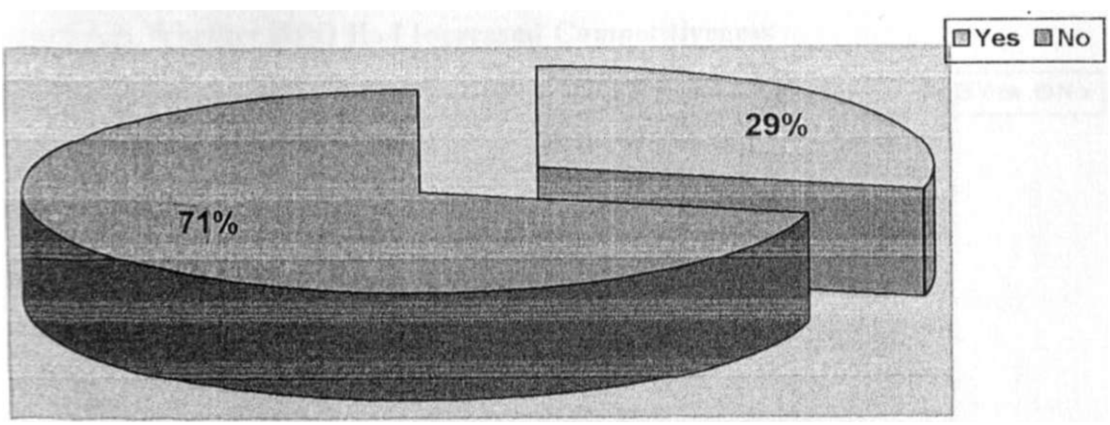
N = 18

Source: Survey Data (2009)

4.3.6 Relation of BPO and Firm Competitiveness

The study sought to establish whether the amount of business outsourced by any manufacturing company was related to the firm's competitiveness. Results are indicated in figure 4.2. Findings indicated that 71% of the CEOs believed that the amount of business a company outsources is not related to that company's competitiveness. However, 29% of the CEOs believed that amount of business processes that a company outsources shows its competitiveness.

Figure 4.2: Whether amount of Business outsourced affects Competitiveness



N = 18

Source: Survey Data (2009)

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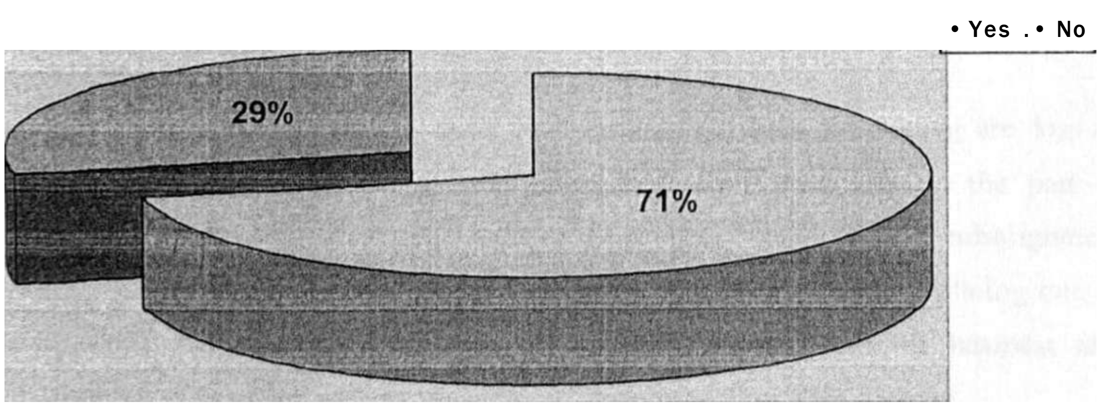
4J.7: **BPO and Its Effect on Competitiveness**

The study sought to establish whether business process outsourcing had increased the manufacturing companies' competitiveness. Data was analyzed and findings were as presented in figure 4.3. Findings indicated that 71% of the CEOs felt that outsourcing business processes had led their firms to being more competitive. However 29% felt that there was no increase in competitiveness as a result of outsourcing business processes. Those CEOs who felt that outsourcing business processes had led to improved competitiveness felt that this system had improved their business in enabling host organizations to build flexible long-term platforms capable of adaptation or evolution. Many organizations focus on building skills in narrow areas where they currently excel. This, the respondents said, helps the firms to keep pace with the emerging market dynamics, allows host organizations to buy technology from a vendor that would have been financially intensive and difficult to build internally. Respondents also observed that business process outsourcing had enabled them remain competitive by giving them access to extensive world-class resources that are provided by specialized vendors. Partnering with a vendor with world-class capabilities can offer access to new technology, tools and techniques that the organization may not currently possess. Outsourcing business processes also provides the organization more structured methodologies, procedures and documentation; and a competitive advantage through expanded skills that are availed by the vendor.

Figure 4.3: Whether BPO Had Increased Competitiveness



N= 18

Source: Survey Data (2009)

4.4: Strategic Risks Arising from Business Process Outsourcing

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The study sought to establish to what extent the manufacturing companies were exposed to the listed strategic risks as a result of outsourcing business processes. Responses were rated on a scale of 1-5 (no extent - very great extent). The responses were analyzed using mean scores and findings are presented in table 4.5.

Findings presented in table 4.5 indicate that the biggest strategic risks emanating from business process outsourcing are poor knowledge retention by suppliers which leads to slow learning, hidden costs which become evident after the contract has commenced, information security and privacy issues and high transaction costs which even surpass the costs of providing the costs in-house.

Table 4.5: Strategic Risks Arising from BPO

Strategic Risks	Mean Score	SD
Loss of Organization learning	4.21	1.37
Information security and privacy issues	4.79	1.16
Declining rate of innovation	3.50	1.24
Motivation loss of remaining employees	4.43	1.34
High transaction costs	4.71	1.25
Hidden costs	4.86	1.06
Misalignment of BPO strategy and Business Strategy	2.50	1.45
Misalignment of supplier and client needs	4.43	1.36
Poor knowledge retention by Suppliers	4.79	1.16
Grand Mean	4.25	1.27

N= 18

Sourcc: Survey Data (2009)

Other strategic risks indicated to arise from business process outsourcing are' loss of organization learning after the process outsourced, motivation loss on the part of employees when lay-offs occur as a result of the process outsourcing and misalignment of supplier and client needs. Risks which arise on a low extent include declining rate of innovation in the company after removing some processes from the business and misalignment of Business process outsourcing strategy and business strategy.

4.4.1 Future Direction in Outsourcing

The study sought to find out what direction the manufacturing companies planned to take concerning business process outsourcing. All the CEOs indicated that they would continue to outsource. Reasons given for this future direction included lower costs of information and communication technologies which are expected to come down in the luture, following the developments in the ICT sector in Kenya. Other factors included the learning and expertise that vendors are acquiring in business process outsourcing thus giving better quality service as they become experienced. All the CEOs projected that the volumes of outsourced business processes would increase as their firms expanded their operations.

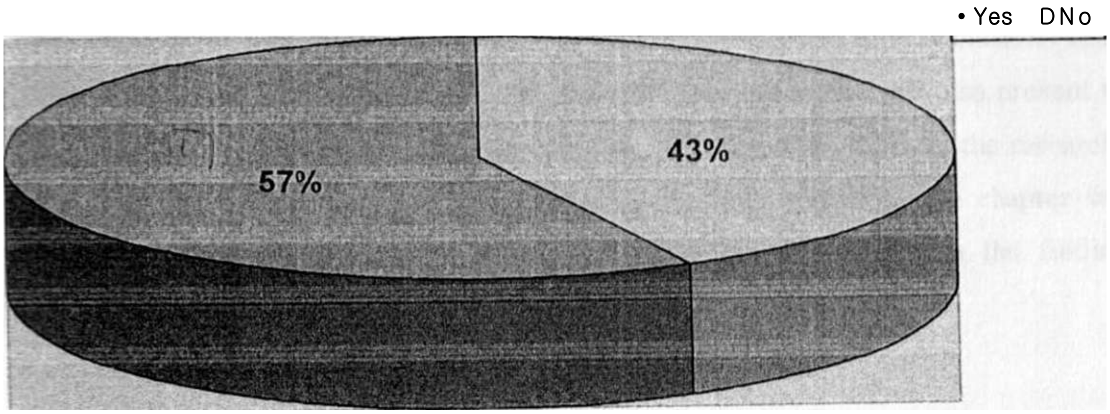
4.4.2 Key Pitfalls in Business Process Outsourcing

Respondents were required to indicate key pitfalls in outsourcing. Findings indicated that the key pitfalls in business process outsourcing that were mentioned by the CEOs were inability of vendors to cope with huge contracts, inability to create lasting relationships and failure to adhere to service level agreements. According to the responses, it was established that other challenges included poor vendor staff training, long processes and bureaucracy in addressing complaints, loss of information privacy. Other responses also indicated that outsourcing creates monotony and boredom since the general staff will only be working in their area of specialty hence not able to know what is going on in other departments.

4.4.3 Withdraw al of an Outsourced Business Process from a Vendor

The study sought to establish whether the surveyed manufacturing companies had outsourced a business process and later withdrawn. Responses were analyzed using percentages and findings are presented in figure 4.3. Findings indicated that 43% of the manufacturing had given out a business process to be provided by a vendor but later withdrew. Fifty seven percent had never withdrawn a process earlier outsourced to a vendor. For those companies which had at one time withdrawn a process from a vendor, reasons given fe/r the withdrawal included poor service quality, hidden costs, risk of information privacy and internal management problems of the vendor.

Figure 4.4: Withdrawal of an Outsourced Business Process from a Vendor



N = 18

Source: Survey Data (2009)

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

In this chapter, the researcher presents the summary, discussions and conclusions based on the findings and interpretations of the research. The researcher will also present the limitations that were identified when carrying out this research. Further, the researcher will provide suggestions for further research on the area and close the chapter with providing implications for policy and practice that can emanate from the findings provided by the research.

5.2 Summary, Discussions and Conclusions

The study addressed two research objectives and in this section, the results for them are summarized, discussed and conclusions drawn. From the analysis and data collected the following the researcher made conclusions and recommendations which were made based on the objectives of the study. The respondents comprised of 14 CF.Os of manufacturing companies that are listed in the Nairobi Stock exchange.

The objectives of the survey were to establish the strategic advantage derived from business process outsourcing and find out the strategic risks involved in Business Process Outsourcing. On the first objective, the researcher established that manufacturing companies in Kenya derive various strategic benefits from outsourcing their non-core business processes. The most common strategic benefits arising from outsourcing non-core business processes in the manufacturing sector are the ability to focus on core business and flexibility. Business process outsourcing releases staff and other resources to pursue other core company operations and therefore less time is wasted on supervision and its also a means of letting the experts do the their job best. In order to achieve these strategic benefits, the outsourcing company should take some measures and precautions to ensure effectiveness of the process. Some of the considerations include skills and level of experience of the vendor, setting key performance indicators and ensuring that the terms and conditions of the contract are well understood by both parties. These, findings agree with the findings from a study by Brown and Wilson (2005) which found that the most monitored service delivery factors were adherence to SLAs, cost and quality of the outsourced business process. These findings also corroborate with findings from a study by Brown and Wilson (2005) which found that a big percentage of outsourcers required their vendors to have a certain level of skills and knowledge that would make them effective in delivering the service in question. This study also concurs with a study by Kakabadse and Kakabadse (2003) which surveyed IT companies in Malaysia and found that outsourcing non-core processes is aimed at reducing costs and building competitive advantage and therefore the most critical considerations in an outsourcing contract are service delivery as per the contract and the cost of the outsourced process.

Business process outsourcing have enabled firms to remain competitive by giving them access to extensive world-class resources that are provided by specialized vendors, partnering with vendors with world-class capabilities which offers access to new technology, tools and techniques and providing the organization with more structured methodologies, procedures and documentation and expanded skills. These findings relate to the ones in a study by Udo (2000) which concluded that although business process outsourcing is related to improving a firm's competitive position in today's business environment, the amount of business processes outsourced by a company is not linearly related to competitiveness. This disagrees with a study conducted by Graf and Mudambi (2005) which concluded that manufacturing firms were used to outsourcing entire manufacturing operations, business services and even entire business lines. This can be attributed to the level of development in the Kenyan Business process outsourcing industry which is still in its infancy. However, findings from this study corroborates with the findings from the study by Lacity and Rottman (2008) on manufacturing companies in Malaysia. Their study concluded that business processes such as information technology (IT), payroll, logistics and human resources (MR) management are among the common ones regularly outsourced in most of the industries. The findings from this study on the strategic advantages of BPO corroborate with the findings from a study on auditing companies in the US by I.acity, Feeny and Willcocks (2004) which identified the major strategic benefits that arose from business process outsourcing. They found that global outsourcing of back office services produced strategic benefits ranging from mprovements in back office efficiency, access to supplier resources and capabilities, and increased flexibility by ramping staff up and down to match fluctuating demand.

On the strategic risks arising from business process outsourcing, the researcher found that the manutacturing sector faces some major strategic risks when engaging in business process outsourcing. These major risks include poor knowledge retention by suppliers which leads to slow learning, hidden costs which become evident alter the contract has commenced, information security and privacy issues and high transaction costs which even surpass the costs of providing the costs in-house. Risks which are not rampant in the Kenyan manufacturing industry are; declining rate of innovation in the company after removing some processes from the business and misalignment of business process outsourcing strategy and business strategy. These findings concur with findings from other studies performed by other researchers like Gartner Group (2004) which found the strategic risks arising from BPO as loss of organizational learning, Farrell (2004) who established the strategic risk of information security and privacy problems in business process outsourcing arrangements, Mouhalis (2006) who found the risk of declining rate of innovation, Aron and Singh (2005) who established the risk of motivation loss of remaining employees, low-performance rates and, Willcocks and Feeny (2006) who established the risk of high-transaction costs, and other hidden costs that may significantly exceed initial capital estimates. The research study also established the key pitfalls to business process outsourcing as inability of vendors to cope with huge contracts, inability to create lasting relationships and failure to adhere to service level agreements. It was established that other challenges included poor vendor staff training, long processes and bureaucracy in addressing complaints and loss of information privacy on the part of the outsourcing company. Outsourcing also creates monotony and boredom since the general staff will only be working in their area of specialty hence not able to know what is going on in other areas.

The study concludes that the manufacturing sector has adopted business process outsourcing albeit on a low level. There have been various strategic advantages and risks arising from this practice but the key is to systematically engage in the process with a

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good strategy and finding a vendor who will leverage technology effectively and asking for visibility into the vendor's processes and platforms. The service level agreements should be clearly and conclusively drafted to ensure that there are not important factors which have been overlooked. BPO has helped many manufacturing firms improve their strategic competitiveness by helping them focus on core competencies and improving their flexibility.

5.3 Limitations of the Study

The researcher faced a number of limitations in the carrying out of this survey. First there was the limitation of earlier studies on this field. This affected the study in that there lacked a precedence and there were no models on how to design research instruments. The researcher however used journals and magazines extensively to help her get information that helped in designing research instruments that were both reliable and valid. The researcher also used these secondary sources to build a theoretical framework on which to base the study.

Another limitation came when collecting the data. The respondents were supposed to be CEOs of the manufacturing companies listed at the Nairobi stock exchange. These are senior employees who generally have very busy schedules. This made it difficult for the researcher to get the questionnaires to be filled in time and which finally resulted in some questionnaires not being returned regardless of the fact that the number of respondents was small. The researcher however made several visits and communicated through e-mail to contact persons in the said companies to get favourable responses.

5.4 Suggestions for Further Research

Ihe practice of business process outsourcing in Kenya is not much developed. This means that the regulatory frameworks and best practices are in their infancy. Most industries have not been able to utilize this practice to leverage their competitiveness. Further studies therefore will be required in this field to establish the competitiveness factors required in a vendor for Ihe vendor to be considered effective by the outsourcing companies. Such study also should investigate the regulatory and policy frameworks required to make this practice more viable in the country.

Another study also can be carried out in the small and medium enterprises to establish whether they are adopting business process outsourcing and find out what factors they consider important in any business process outsourcing decision. The small and medium enterprises are the driving force of Kenya's economy and hence their development would mean advancement of the country. Other studies like this one can also be carried out in other industries such as banking, insurance and education. This is because their practices may vary due to their nature of business. Service sectors have differing practices from those observed in commodity industries and therefore business process outsourcing may be viewed differently in such industries, differing from what has been established in this study. Such further studies should also utilize different methods of data collection such as interviews to have a deeper insight on the practice.

5.5 Implications for Policy and Practice

These findings from this research have some implications for policy and also for the practice of business process outsourcing in Kenya. Business process outsourcing vendors can be required by their clients to eventually look like application service providers, offering open interfaces and process transparency. Other industries like banking which values high information privacy and security can require them to look like black boxes providing only limited inputs and outputs. From the findings on the strategic benefits, clients require BPO vendors to actually deliver innovation and optimize outsourced processes, but not just running existing processes at a lower cost.

The industry also requires some policy and regulations to streamline it since it is in its infancy. However, BPO vendors will have to use business rules to expose the key decision-points within their processes whether or not they provide transparency in a more general case. Companies simply have their own way of doing business and even in a standard process there will be variation in decision-making that needs to be imposed by the client on the outsourcer. The industry can also adopt the use of business rules management systems which would allow the outsourcer to expose these decisions to each of their clients while still running a standard, and black-box, process. BPO Best Practices should include choosing a vendor that's leveraging technology effectively and asking for visibility into the vendor's processes and platforms.

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APPENDICES

Appendix I: Letter of Introduction

University of Nairobi

School of Business

Dept of Business administration

Nairobi

July 14, 2009

Dear Respondent,

RE: COLLECTION OP SURVEY DATA

I am a masters' degree student at University of Nairobi, School of Business.
In order to fulfill the masters program requirements; I am undertaking a research project on "Business Process Outsourcing and Competitiveness of Firms in the Manufacturing Industry".

Your organization has been selected to form part of this study. Therefore, 1 kindly request you to assist me to collect data by filling out the accompanying questionnaire. The information provided will be used exclusively for academic purposes and will be held in strict confidence.

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I hank you.

Yours faithfully,

Irene Ndugi

Appendix II: Questionnaire for CEOs

Section A: General Information

1. Name of the Organisation:_
2. Year of formation of the company:_
3. Number of Employees in the company_
4. Has your company ever practiced Business Process Outsourcing? Yes [ ]   No ( ]
5. **If your** answer in 4 (above) is No, Please explain

Section B: Strategic Benefits Arising from Business Process Outsourcing

1. **On** a scale of 1 - 5 please rate the extent to which you think your company has gained the following strategic benefits from Business Process Outsourcing

   [1]No Extent [2] Little extent [31 Moderate extent [41 Great Extent [5] Very Great Extent

	Please circle one that applies
Focusing on Core processes	Ml P] PH4] PI
Flexibility	Ml P] P] [4] P
Having access to wider skills	Ml I21 I3114! 151
Better service and product quality	Ml PI PI J4j Pj
Better Consumer relationship management	Ml 121 P1141 PI
Better service Quality than was provide internally	Ml PI PI I41151
Other (specify)____	Ml [21 PI [4] [5]

2. Which of the following describes the nature of the process your organisation outsources;

   [1 Call centres
   [ ] Drafting and architectural services
   [1 Contact centres
   [ ] Software development
   [1 Data transcription services
   [1 Data entry services
   [ ] 1 Iuman Resource
   [1 Benefit Administration
   [j manufacturing of parts
   [j logistics and distribution

<)
[ ] payroll and benefit administration
Others, Please specify

3. On a scale of 1 - 5, please rate the extent to which your company considers the following reasons while outsourcing a business process

P1No Extent [2] Little extent [3] Moderate extent [4] Great Extent [5] Very Great Extent

	Please circle one that applies
Quality	] 12] [3] (41 [5]
Experience	] [2] [3J [4] [51
Honesty	1 [21 13] [4] [5]
Reliability	] [2] [3] [4] [5]
Fairness	] [2] [3] [41 [5]
Trust	] 12] [3] [4] [5]
Other (spt-cify)	1 [21 131 [4] [5]
Other (specify)	] 12] [3] [4] [5]

4. On a scale of 1 - 5, please rate the importance of the following factors in the service delivery contract with a vendor

[1] Not Important [2] Little Important [3] Moderately important [4| Very Important [5] Extremely Important

	Please circle one that applies
Project management	[1] [2] [3] [4] [5|
Standards	11] [2] [3] [4] [5]
Performance benchmarks (targets)	[1] [2] [31 [4| [5]
Contract administration	[1] [2] [3] [4] [5]
Other (specify)____	[11 [2] [31 [4] [5]
Other (specify)____	[1! [2] [3] [4] [5]

In order of importance please state the three most critical service delivery factors?
1.__________^_
2.'__________'_i
3.

5. Is it a requirement from you that agents/supervisors should have certified training?
Yes [ ] No [ ]
If yes, which training?

6. Do **you** think the amount of Business Processes outsourced is related to firm competitiveness? Yes [ ] No [ ]

7. lias BPO increased your firm's competitiveness? Yes [ ] No [ ]
If yes, in which ways

Section C: Strategic Risks Arising from Business Process Outsourcing

1. **On a scale of 1 - 5 please rate** the extent to which you think your company has been **exposed to the following strategic risks** due to Business Process Outsourcing

[1] No Extent [2] Little extent [3**J** Moderate extent [4] Great Extent [5] Very Great **Extent**

	Please circle one that applies
Loss of Organization learning	11] [21 **[3] [41 [5j**
Information security and privacy issues	[1] [2] **[3] [41 [5]**
Declining rate of innovation	[1] [2] **[3] [41 [51**
Motivation loss of remaining employees	[1] [21 **[3] [41 [5]**
Low performance rates	[11 [2] **[3] [41 [51**
High transaction costs	[1] [21 **[31 [4] [51**
Hidden costs	[11 [2] **[3] [4] [51**
Misalignment of BPO strategy and Business Strategy	[1] [21 **[31 [4] [51**
Misalignment of supplier and client needs	[1] [21 **[3[[4] [51**
Poor knowledge retention by Suppliers	[1] [2] **[3] [4] [51**
Other (specify)	[11 [21 **[31 [4[[51**

2. **Which do you foresee your company** will do in the next 10 years?
   Continue to outsource work [1
   Set up offshore [1
   Set up in-house operations [1

Please give a reason(s) for this?

3. **Do you foresee** the outsourced volumes increasing or decreasing?

Increasing [ ]
Decreasing [ ]

Piease give a reason for this?

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What are the key pitfalls in outsourcing?

5. Has your company outsourced to a destination(s) and later withdrawn?

Yes [ ] No [ ]

If yes, why did you withdraw?

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Vppendix III: List of Manufacturing Firms at NSE

1. Athi river mining
2. Boc Kenya
3. Bamburi cement
4. BAT ^Cenya limited
5. Carbacid investments
6. Crown Rerger
7. East African Cables
8. East African Portland Cement
9. East African breweries
10. Eveready east Africa Limited
11. Kenya Oil Company
12. Kenya Power and Lighting Company
13. Kenya Electricity generating Company
14. Mumias Sugar
15. Sameer Africa
16. Total Kenya
17. Unga Group
18. Sasini Ltd