# IMPLEMENTATION CHALLENGES OF THE BUSINESS PROCESS OUTSOURCING STRATEGY IN THE MINISTRY OF TRANSPORT IN KENYA

**BY**

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**RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINSTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2012**

# DECLARATION

## STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:
……………………………………………..Date:…………………………………

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## SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature……………………………………….….Date…………………………………..

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# DEDICATION

I dedicate this work to my parents, Josephine and Simon, for their love, patience, support and resilience.

# ACKNOWLEDGEMENTS

Writing this research project was possible only with the help support and encouragement of family, friends and colleagues, to whom I am deeply grateful. I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project. The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Dr. Zack B. Awino, for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to you.

The entire staff of the Ministry of Transport cannot pass without my special acknowledgement for taking time off their busy schedule to provide me with all the information I needed in the course of the research. Without their immense cooperation I would not have reached this far.

I would also wish to extend my sincere gratitude to all the MBA students, staff, lecturers and the entire University of Nairobi fraternity for changing me from what I was to what I am. I would also like to thank my parent Mr and Mrs Kiptoo, for standing by me through this academic journey and instilling in me right values that have shaped me, special thanks also to my Siblings Dennis, Viola and Lydia and to my friends Mwikali ,Sammy and Tom  for their unlimited support and inspiration they showed me throughout my life and specifically during this research. Thank you all. May the Almighty God bless you abundantly.

## TABLE OF CONTENTS

## ABBREVIATIONS AND ACRONYMS

**HR:** Human Resources

**IT:** Information Technology

**R&D:** Research and Development

**IS:** Information Services

**BPO:** Business Process Outsourcing

**RTD:** Road Transport Department

**KRA:** Kenya Revenue Authority

**UK:** United Kingdom

**BPR:** Business Process Re-Engineering

**CEO:** Chief Executive Officer

**SPSS:** Statistical Package for the Social Sciences

**IPPD:** Integrated Payroll & Personnel Database

**IFMIS:** Integrated Financial Management Information System

**SCM:** Supply Chain Management

**AD:** Assistant Director

**SDS:** Senior Deputy Secretary

# ABSTRACT

Business process outsourcing refers to an Organization that contract with another company to provide services that might otherwise be performed by in-house employees. Many large Organizations now outsource jobs such as call center services, Cleaning, Security, e-mail services, and payroll. BPO involves business process management and outsourcing. Business process management utilizes technology aimed at revamping the process, trimming down unnecessary steps, and eliminating redundancies. The objective of the study was to establish implementation challenges of BPO strategy at the Ministry of Transport in Kenya. The researcher adopted a descriptive case design. The researcher used both primary and secondary data. Primary data was collected using an interview guide while the secondary data was mainly collected from periodicals, publications, economic reviews, annual company accounts and commercial sources. The target population comprised of the Senior Deputy Secretary, Senior Assistant Director SCM, Office Superintendent, Chief Finance Officer, Principal Accounts Control and ICT Assistant Director. Content analysis was used to analyze the data that is of qualitative nature. Ministry of Transport has adopted Strategic Plan 2008-2012 with an aim of reducing costs, improve operations, overcome lack of internal capabilities, keep up with competitors, gain competitive advantage, improve capabilities and improve customer service. The Kenyan public sectors especially the Ministry of Transport and other Outsourcing Organization should use the study to benefit the organization by formulating strategies to counter the challenges of BPO strategy and enhance successful implementation of BPO. The government and policy makers should get insight from the study in formulating policies regarding regulatory requirements of the Kenyan outsourcing firms that will promote successful implementation of BPO in the organization. The academicians should use that the study as a basis upon which further studies on business process of outsourcing could be researched. The findings should contribute to professional extension of existing knowledge in business processing outsourcing by providing literature on challenges of BPO implementation, it would also help the Government of Kenya to institute policies to streamline the outsourcing process in the Public and Private sector so as to avoid the aforementioned challenges encountered during the Outsourcing process.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In today's global economy, organizations are faced with a variety of changes in the business environment (Tracey and Tan, 2001; Lockamy and McCormack, 2004). The dynamics of present day competitive environment also places increasing pressures on organizations to reinvent themselves almost continuously (McAdam and McCormack, 2001), adopt the supply chain management philosophy (Tracey and Tan, 2001), develop long-term strategic partnerships with a few competent and innovative suppliers and collaborate with them in non-core process outsourcing in order to maintain or improve overall organizational performance and generate sustainable competitive advantage. Researchers like Hiatt (1996) and Zairi (1997) are well aware that BPO is paramount for businesses to stay competitive in today's marketplace.

Outsourcing as a key business strategy has been used by Organizations in various industries for many decades. Competitive pressures have forced them to look objectively and critically at business processes. Organizations 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.

### 1.1.1 Business Process Outsourcing Strategy

Business process outsourcing has been a rising trend in outsourcing since the end of 1970s. Most common type of business process outsourcing, information technology outsourcing, started to become more popular in the 1980s. In the same time information and computer systems become more complex and new possibilities for companies to seek competitive advantage were found (Mierau, 2007). Interest in outsourcing renewed in the 1990s and the concepts and ways of outsourcing evolved. During the first half of the 1990s the size of the information services (IS) outsourcing industry grew tenfold (Behara *et al.,* 1995). One of the popular new trends in outsourcing during that time was total outsourcing where personnel previously employed by the client were transferred to the vendor organization. Other outsourcing types of partial and selective outsourcing imply only transfer of process responsibilities.

Business process outsourcing refers to an Organization that contract with another company to provide services that might otherwise be performed by in-house employees. Many large Organizations now outsource jobs such as call center services, Cleaning, Security, e-mail services, and payroll. These jobs are handled by separate companies that specialize in each service. One of the most familiar forms of outsourcing is business process outsourcing (BPO), i.e., transferring the operational ownership of one or more of the firm's business processes to an external supplier that, in turn, administers the processes according to some predefined metrics.

BPO or Business Process Outsourcing refers to the rearrangement of entire business functions to some other service providers, primarily in low cost locations. The service provider may be either self-owned or a third party. This relocation or transferring of business processes to an external provider is essentially to accomplish increased shareholder value. BPO involves business process management and outsourcing. Business process management utilizes technology aimed at revamping the process, trimming down unnecessary steps, and eliminating redundancies. On the other hand outsourcing uses proficiency and resources of dedicated external service providers to execute many of these fundamental yet non-core activities.

### 1.1.2 Strategy Implementation Challenges

The successful implementation of any strategy in an organization takes more time than its formulation. This can challenge managers' attention to execution details thereby leading to failure in achieving the set goals (Vani *et al.*, 2008). The challenges may include issues to do with the identification and inclusion of key stakeholders to ensure reengineering success.

Identification of challenges both short term and long term strategic challenges that deserve hoc\nest priority is key to the successful implementation of BPO in any organization. These challenges if not dealt with in time may hinder the achievement of intended purpose of the BPO. The challenges may include dealing with resistance from implementing agents, inadequacy of resources to facilitate the full reengineering process among others. All these need to be dealt with on time to ensure successful BPO implementation (Lee *et al.*, 2002).

### 1.1.3 Transport sector in Kenya

The Transportation industry sector comprises a wide range of service providers, covering all modes of transport i.e. Air, road, rail, sea as well as related services such as warehousing, handling, stevedoring, and finally value added services like packaging, labeling, assembling among others. Because of the diversity of the sector in Kenya the infrastructure group has defined three key market segments that it concentrates on: Roads, Ports and Airports, Rail and Infrastructure (Ministry of Transport, 2012).

The transport sector is crucial in the promotion of socio-economic activities and development since an efficient and effective, transport system is a mainspring for rapid and sustained development in terms of national, regional and international integration, trade facilitation, poverty reduction and improvement of welfare of the citizen. The Ministry of Transport is responsible for facilitating transport services in Kenya. This involves policy formulation, development of regulatory framework monitoring and supervising semi autonomous government institutions in the sector (Ministry of Transport, 2012).

### 1.1.4 Ministry of Transport in Kenya

The Ministry of Transport is responsible for facilitating transport services in Kenya. This involves policy formulation, development of regulatory framework monitoring and supervising semi autonomous government institutions in the sector. The ministry formulates policies for the four major modes of Transport: roads, railway, marine and air. These various modes of Transport integrate various productions and population centers and facilitate mobility in both rural and urban areas. There are four fully-fledged departments in the Ministry, the Shipping and Maritime department, Air Transport, Air Accident investigation and motor vehicle inspection unit. All other are coordinating offices for state corporations in the transport or provide support services (Ministry of Transport, 2012).

The Road Transport Department (RTD) was established by the Traffic Act Cap 403 of 1954 to regulate the road transport industry in Kenya under the Ministry of Transport. It was transferred to Kenya Revenue Authority (KRA) in 1995. While KRA is responsible for enforcing the Acts, policy decisions are usually made by the Ministry of Transport. The department is entrusted with the responsibility of registration of motor vehicles and trailers, licensing of motor vehicles and drivers, safe custody of all motor vehicles and drivers records and collection of licensing fees ( with the exemption of road licence fee which was recently transferred to fuel development levy under the Ministry of Energy) and other levies relating to the administration and enforcement of laws provided under the various Acts including: Traffic Act Cap 403, the Second Hand Motor Vehicle Purchase Tax Act Cap 484, and the Transport Licensing Act Cap 404 (Ministry of Transport, 2012).

## 1.2 Research Problem

Business Process Outsourcing strategy is a growing phenomenon driven by cost reduction, reduced time cycle and access to highly skilled professionals. Although there are good reasons to outsource, a number of potential obstacles and problems associated with outsourcing are also recognized. While outsourcing is associated with several important benefits, it also entails number of risk factor (Auburt *et. al.*, 1999; Earl, 1996). Outsourcing itself can be a core competency for a company in the current business environment. Successful management of outsourcing projects is a key success factor for many leading world-class companies.

In the Ministry of Transport this strategy has been adopted as per the recommendations contained in its Strategic Plan 2008-2012. This strategy was adopted in the Ministry with an aim of; reducing costs, improve operations, overcome lack of internal capabilities, keep up with competitors, gain competitive advantage, improve capabilities and improve customer service. BPO is valuable if it identifies the factors that should be considered when decisions about business process outsourcing are made. As organizations battle to get the most from business process outsourcing, the determinants/drivers that foster business process outsourcing are paramount. Despite the established importance of the BPO strategy, this has not been always been achieved in many organizations.

Locally, studies on business process outsourcing have been conducted. Kinyua (2000) surveyed outsourcing of selected financial activities by publicly quoted companies in Kenya and found that the practice provided opportunities for cutting down costs at creating competitive advantages; Kinyua (2010) conducted a study based on the impact of business process outsourcing at Kenya Power and Lighting Company Limited; Machoka (2008) conducted a study on business process outsourcing strategy in the audio visual industry in Kenya; while Chanzu (2002) carried out a research survey of business outsourcing practices amongst private manufacturing companies in Nairobi and found that benefit of business process outsourcing are substantial and include reduced costs, experienced services and expertise. Other studies include Motari (2002) surveyed on outsourcing of logistics practices of medium and large Kenyan manufacturing firms and concluded that outsourcing allowed the companies to refocus their resources on their core manufacturing business and Lutta (2003) researched on outsourcing of distribution logistics within supply chains of E.A. Breweries Ltd and found that certain support functions can be completed faster, cheaper, or better by an outside organization. Therefore this study seeks to fill the research gap by conducting a study and answering the question “what are the implementation challenges of BPO strategy at the Ministry of Transport Kenya?

## 1.3 Research Objectives

The objective of the study was to establish implementation challenges of BPO strategy at the Ministry of Transport in Kenya.

## 1.4 Value of the Study

To the Kenyan public sector especially the Ministry of Transport and other Outsourcing Organization: It would benefit the organization management teams in identifying challenges of implementing BPO strategy and how they can they can counter the challenges. It would also show the benefits of applying effective BPO as stakeholders involved in Strategic decision making so that they could improve productivity

To the government and policy makers at various levels of management would gain value added information on adapting business processing outsourcing in response to changing competitive environment. The study would be useful to the government in policymaking regarding regulatory requirements of the Kenyan outsourcing firms. The policies designed, would serve as guidelines in assisting the management in knowing what the right factors to ensure superior BPO performance are achieved. Stakeholders would benefit from this research as it would be an important blueprint for the other players in the government ministry. Where by the policies designed, would serve as guidelines in assisting the management in knowing what the right factors to ensure superior BPO performance are achieved.

To the academicians: the study would provide useful basis upon which further studies on business process of outsourcing can be researched. Specifically, the study would make theoretical, practical and methodological contributions. The findings would contribute to professional extension of existing knowledge in business processing outsourcing by helping to understand the current challenges for adopting these strategies and their effects on environmental response in various financial institutions in general.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This section draws on literature in the area of business process outsourcing. Secondary material such as books, journals, and articles which carry previous research work on the study topic are analyzed. The material is of importance to this study as it forms a basis for observations which will be made during the study in line with the study objective.

## 2.2 Theories and Concept of BPO Strategy

The scope of business process outsourcing is a complex concept. For better understanding of what it consists, we can divide the concept into smaller parts: The functional scope of outsourcing describes the amount and breadth of functions that are involved in the outsourcing: is the outsourcing project limited to a single function (for example billing or mailing) or does it consist of multiple functions (for example whole back office function). Organizational scope of outsourcing describes the amount of different organizational units that are involved in the outsourcing process. This affects the amount of stakeholders the outsourcing project has, and makes the management of outsourcing complex (Machoka, 2008).

Geographical scope of outsourcing describes the amount of different business sites, countries and cultures involved in the outsourcing project. Today's outsourcing projects typically involve off shoring, which creates additional complexity. Concept of service scope is related to the complexity of the service itself. One way service complexity affects outsourcing ventures is through switching costs. Research by Barthelemy and Quelin (2006) has shown that outsourcing near-core activities leads to higher vendor switching costs. Furthermore, the requirements for controlling and monitoring the vendor increase with the importance of the outsourced business function. Human resource issues also affect the scope of outsourcing: whether the outsourcing company needs to transfer or lay off its current employees, or is the purchase of the service an addition to the current capabilities of the company, e.g. a completely new service offered to end customer.

One way of dividing business process outsourcing projects by scope is to divide them in to four scopes: total outsourcing, multiple-supplier outsourcing, joint ventures and in-sourcing (Currie and Willcocks, 1998). Total outsourcing is perhaps the most traditional type of business process outsourcing where a client develops a "partnership" with a single vendor. Total outsourcing is a situation when the vendor is in complete control of a significant part of the client's processes. Total outsourcing ventures are characterized by their long-term contracts; focus on core business by both client and the vendor and sharing of the risks and rewards (Dibbern, 2004).

The second type of outsourcing is the multiple-supplier business process outsourcing that focuses on creating competition between the suppliers by creating standardized operations for easier comparison (Currie and Willcocks, 1998). The contracts are more short-term, and the client needs to build an alliance of suppliers for the outsourcing project to succeed Multiple-supplier outsourcing is also called selective outsourcing (Dibbern, 2004). The third type of outsourcing is joint ventures or strategic alliance (Dibbern, 2004).

The fourth type of outsourcing is in-sourcing or back sourcing. In in-sourcing the process is seen as core business of the client. In-sourcing is also often utilized when there are inadequate supplier or market conditions, lack of trust for the suppliers or there is great synergy between the process outsourced and the business itself (Currie and Willcocks, 1998). Example of in-sourcing would be back office function that was moved back into the company and built as a centralized department.

Some definitions of in-sourcing imply that the ownership of the service production should be completely internally with the client (Dibbern, 2004), but some definitions include contractors (Currie and Willcocks, 1998). Researchers Hirscheim and Lacity (1995) also define “body shopping” as the lowest level of outsourcing, where outsourcing is only contracting of outside workers for projects. The theories on business process engineering include the resource-based view theory, neoclassical economical theory and agency theory. The three theories try to explain the importance of issues to be considered in BPO.

### 2.2.1 Resource-Based View Theory

According to Babu (2005) the resource based view is based on the concept of productive resources. In this strategic theory, the firm is viewed as a collection of physical and intangible resources that enable it to compete with other firms. It makes the assumptions of resource heterogeneity and resource immobility. Resource heterogeneity is the assumption that the resources that firms possess and the strategies they pursue are idiosyncratic to the firm.

Resource immobility is the assumption that all resources are not perfectly mobile, that is, all resources may not be bought and sold in open markets to create resource homogeneity between firms. Competitive advantage is gained through resources that are valuable, rare, imperfectly imitable, and without strategically equivalent substitutes (Chanzu, 2002).

A conceptual understanding of these constructs is essential to understand the relationship of this theory to other theories. Value refers to the ability of a firm attribute to exploit specific opportunities and counter threats in the environment. Only when a firm attribute possesses value does it become a resource. To provide sustained competitive advantage, a resource must also have the remaining three qualities. The resource must be rare among the firm's present as well as potential competitors.

The resource based view does not address the issue of firm boundaries directly. Sharpe (1997) posits that the resource based view implies that a firm should possess all valuable resources within its boundaries, and therefore has underemphasized a firm's seeking competitive advantage through business process outsourcing rather than by expanding organizational boundaries. However, since the theory does not explicitly make this suggestion, it can be easily extended to include business process outsourcing.

According to Grenier, Youngblood and Gary (2004), on the antecedents to business process outsourcing, studies using this theory assume that a firm is not able to internalize more than a few resources. The firm then decides between all the resources they need by comparing the attributes of the resources with each other. Resources with greater value and rareness and lesser imitability and substitutability are internalized while the other resources are outsourced.

### 2.2.2 Neoclassical Economic Theory

The key characteristics of the neoclassical economic theory are (Des *et al.*, 1995): Assumption of rational, maximizing behavior by agents with given preference function, Focus on attained, or movement towards, equilibrium states and the absence of chronic information problem.

The neoclassical theory explains the initial motives for business process outsourcing demonstrated by some pioneering companies like Kodak (Darr and Kurtzberg, 2000).However, the theory has received a significant critique for not being able to explain contemporary business processes. Especially, the concepts of rationality and absence of chronic information problem have been criticized. However Gottschalk and Solli-Sæther (2005) showed that the neoclassical economic theory explains critical success factors of business process outsourcing that are being evaluated in the Reconsideration phase.

### 2.2.3 Agency Theory

Agency theory deals with the principal agent problem, in which the principal delegates an activity to an agent. Principals and agents are assumed to be self-interested, rational and risk-averse (Gereffi and Wadhwa, 1993). Agency theory deals with two problems. The first is the agency problem, in which the agent's goals do not always meet with the principal's, and it is difficult or expensive for the principal to verify or control the agent's behavior. The second problem is that of risk-sharing. Since both the agent and the principal are risk-averse, they may prefer different approaches towards risk-sharing. This results in increased agency costs for developing monitoring and enforcing contracts.

Agency theory has several areas of overlap with transaction cost economics. It includes the assumption of opportunistic behavior through the belief that the agent will not behave in the principal's best interests. It also includes the assumption of bounded rationality through the belief that it is not possible to write a complete contract. There is also content overlap between the agency theory constructs of outcome uncertainty, span of control and programmability, and the transaction cost construct of imperfect information (Sharpe, 1997). Span of control relates to the number of staff a manager is able to oversee.

Imperfect information is the condition that it is difficult for the principal to assess the performance of the agent, and a complete contingent contract is not possible, leaving open risk of opportunistic behavior by the agent. This would include ability to assess that the desired outcome would occur (outcome uncertainty), ability to monitor and control the agent's behavior (span of control) and the ability to write a complete contingent contract (programmability).

From the perspective of agency theory, these are the main antecedents of business process outsourcing. The lower the outcome uncertainty, the higher the span of control; the higher the programmability, the greater the likelihood to engage in business process outsourcing; An increase in the transaction cost economics constructs of asset specificity, small numbers bargaining, and imperfect information, may also result in higher risk of opportunistic behavior by the agent, and therefore create increased costs for the principal to negotiate, monitor, and enforce a contract with the agent. This includes the costs predicted by agency theory; the costs of the agency problem and the costs associated with risk sharing (Schilling and Steensma, 2002).

## 2.3 Challenges to BPO Strategy Implementation

According to Alexander (1985), the ten most frequently occurring strategy implementation problems include underestimating the time needed for implementation and major problems surfacing that had not been anticipated, in addition uncontrollable factors in the external environment had an adverse impact. Based on empirical work with 93 firms he observed that senior executives were over optimistic in the planning phase and it is noteworthy that the first two issues which occurred most frequently in Alexander's study were planning issues.

He also found the effectiveness of coordination of activities and distractions from competing activities inhibited implementation, in addition key tasks were not defined in enough detail. With regard to people, the capabilities of employees involved were often not sufficient, leadership and direction and "training and instruction given to lower level employees were not adequate" (Alexander, 1985, p. 92). Although the least frequent in this study in many cases the information systems used to monitor implementation were not adequate.

Reed and Buckley (1988) discuss problems associated with strategy implementation identifying four key areas for discussion. They acknowledged the challenge and the need for a clear fit between strategy and structure and claim the debate about which comes first is irrelevant providing there is congruence in the context of the operating environment. They warn that, although budgeting systems are a powerful tool for communication, they have limited use in the implementation of strategies as they are dominated by monetary based measures and due to their size and the game playing associated budget setting.

Al Ghamdi (1998) replicated the work of Alexander (1985) in the UK and found for 92 percent of firms implementation took more time that originally expected, that major problems surfaced in 88 percent of companies, again showing planning weaknesses. He found the effectiveness of coordination of activities as a problem in 75 percent and distractions from competing activities in 83 percent cases. In addition key tasks were not defined in enough detail and information systems were inadequate in 71 percent of respondents. What is interesting is that there is congruence between these findings, which implies that lessons have still not been learned; as Al Ghamdi states, "the drama still continues" (Al Ghamdi, 1998, p. 322).

In addition to the above, another inhibitor to successful strategy implementation that has been receiving a considerable amount of attention is the impact of an organization's existing management controls and particularly its budgeting systems (Reed and Buckley, 1988; Otley, 2001). Although it is increasingly suggested that budgets suffer from being bureaucratic and protracted, and that they focus on cost minimization rather than value maximization (Brander, Brown and Atkinson, 2001), they still represent the main integrative control mechanism in many, if not most, business organizations (Otley, 2001). In the apparent absence of suitable alternative information systems (Alexander, 1985), significantly, it is claimed that well-established budget control systems can overwhelm or dominate strategic control systems (Goold and Quinn, 1990) – even to the extent that "when the going gets tough, budgetary pressures will tend to derail strategic goals"(Bungay and Goold, 1991, p. 32). In order to overcome such "myopic" tendencies (Bungay and Goold, 1991), it is suggested that organizations need to establish shorter/medium-term strategic "milestones" (Goold and Quinn, 1990).

The various possible challenges to BPO strategy implementation include post contract processes and decision rights not being understood, Poor Mutual Understanding of the Contract; Loss of Key Talent and/or Poor Knowledge Transfer; End-User Resistance to Adopting New Methods; Culture Clash between the Client and Service Provider; Security Hazards. The other literature covered here includes client retained team not being in place or being too small and the little or no support from client leaders receiving the services.

Major problem in outsourcing implementations is a lack of understanding of post-contract processes and decision rights. Simply put, clients and service providers are not operationally prepared to work together after contract signing. The results are that services simply aren't performed, implementation activities get stalled, client stakeholders and service provider staff are both frustrated, and the entire schedule for achieving expected business benefits is delayed. Having processes and decision rights rated as the biggest problem may seem surprising given the possibility for high emotion and behavioral change that comes with outsourcing. However, it is this lack of definition and understanding that is a significant root cause of many other issues (Banerjee, 2004).

These and a host of other questions about financial, contractual, and service delivery processes and decision rights must be answered and communicated to appropriate stakeholders in the client and service provider organizations. The outsourcing contract is not intended to be (nor should it be) an operations manual; therefore additional work is required to design and communicate changes (Babu, 2005).

After signing the initial contract, both the client and service provider have multiple team members who are trying to manage the initial implementation activities and ongoing operations. The client has staff who are just learning the details of the agreement, may be emotionally charged regarding the decision to outsource and also have a personal view of what the service provider should (and should not) perform (Gibson, 1999). The service provider has team members who are also new to the transaction, and sometimes bring a view of “this is what we did in my last deal” without fully understanding nuances of the specific agreement that has been negotiated. The significant number of new people combined with a high speed of implementation impairs a requisite absorption period, leading to uninformed views on both sides of “what’s in the contract (Chui, Lloyd and Kwok, 2002).

Another major risk concerns knowledge transfer. Although a product may be developed externally, it may require internal support. Therefore the transfer of knowledge from both sides of a contract is critical. When a product is delivered, if the transfer of knowledge is broken, the company will become dependent on that particular vendor. The same can be said for the organization that may need to transfer an abundance of knowledge to the vendor in order for a product or service to be delivered successfully.

Additionally, when jobs are exported, there is a possible loss of innovation. Although difficult to measure, the pool of workers that helped build up a service or system, are now being replaced with individuals who may not have the company’s best interests in mind. Therefore innovation and potential talent are being lost to individuals who have a limited stake in the success of the company (unless stipulated in a contract) (Cohen and Levinthal, 1990).

Outsourcing creates uncertainty for existing employees and contractors who provide services to the client organization. The uncertainty can cause this staff to look elsewhere for employment and leave either before or during the outsourcing implementation, causing a need to either backfill the resource or reduce the amount of work performed by the organization. In addition, some of the client staff is temporarily engaged for knowledge transfer to the service provider during the implementation. If the staff is not properly motivated or if the service provider does not do a good job with knowledge transfer, this can cause decreased efficiency in service delivery and possibly introduce operational risk (Choudhury and Sabherwal, 2006).

Oftentimes, a third-party service provider is brought in to be a “change agent.” The outsourcing sponsor wants to achieve business benefits quickly which require changes in process, technology, behavior and (potentially) staffing. However, for many outsourcing services, the provider it is not in complete control of the end-to-end result. The users on the receiving end of new methods can inhibit the achievement of business objectives through lack of compliance, strategy disagreements or delays in executing their required responsibilities (Edwards, Braganza and Lambert, 2000).

Aside from risks related to cost, security also becomes a major risk. If you think about it, outsourcing is not just sending requirements and specifications outside a company; it is in fact opening up a company to allow vendors access inside. Unlike physical labor, technology allows workers to operate from remote locations while work is being performed on central servers in various offshore locations (Gibson, 1999).

Whether it is software or hardware, access must be granted to outsourcing companies and with this access comes inherent risks. Many of these risks surrounding outsourcing are risks companies face every day but become magnified when work moves outside the span of control of a company. The key to successful and secure outsourcing agreements entails understanding the security and privacy risks for a business process, application or technology function early in the outsourcing decision process (Gibson, 1999).

Clients tend to put off making decisions about the retained/governance team for multiple reasons, including: All energies and efforts are focused on “the deal” in terms of contract terms, conditions, and pricing, with no time/resources devoted to post-contract issues: Clients may postpone making staffing decisions and communicating changes until they are sure about the final outcome of the outsourcing agreement; Clients expect that since they are outsourcing the work, the service provider will take care of everything and the client can “wash its hands” of ongoing management responsibilities, resulting in a lack of governance staff (Hofstede, 1997). Another significant problem that exists in many outsourcing implementations is the lack of buy-in from senior client leaders who will be recipients of the outsourcing services. This can result in active or passive resistance to the entire outsourcing model; create the desire for “special treatment” or opt-out from the outsourcing services, and results in business case deterioration (Kinyua, 2000).

## 2.4 Determinants of BPO

In the age of outsourcing, it is critical to engage in business relationships that assure successful partnerships. The practice of outsourcing business processes is maturing and thus able to better assess those factors that have led to successful or failed outsource relationships.

High on the list of factors that result in successful BPO technology to support an organization's business needs. Outsourcing success is most often achieved by business organizations that outsource all or a large proportion of IT functions as a project, this chapter gives an insight on some of the envisaged determinants of BPO success and failures.

### 2.4.1 Information Technology

A central factor that seems to contribute to outsourcing success is information technology investment. Companies may disaggregate their business processes, thus facilitating their ability to outsource through their affect on the firm's transaction and production costs and capabilities. This ability is facilitated by reductions in complexities associated with communication and coordination across organizational boundaries. Because of improved codification and standardization of the data exchange, IT also facilitates the company's ability to reintegrate the outcomes of outsourced processes back into their internal operations. Bardhan, *et al*. (2006) tested for IT-related success factors and found a strong, positive relationship between IT investments and lower costs and improved quality.

Outsourcing decision making may also be influenced by technology forces (Clark *et al.*, 1995). Clark *et al*. (1995) contended that, along with the rapid progress of information technology, technology production and technology management have become the strategic core business for service organizations. Mol *et al.* (2004) argued that outsourcing can be driven by the technology core of the innovation process.

### 2.4.2 Strong relationships

For an organization and outsource vendor in an outsourcing relationship to handle both opportunities and threats, they need a mutual understanding of the stage of their relationship (Gottschalk & Solli-Saether, 2006). If an outsourcing arrangement is to be successful, it needs to be managed with care, attention to detail, vision about what might be achieved, close monitoring of financial issues and sensitivity to the needs of different stakeholders (Akomode, Lees & Irgens, 1998). Both the organization and the vendor need to invest time in gaining a deeper understanding of each other’s working culture, establishing lines of communication between the two organizations and making sure that all those working on the outsourcing initiative are well informed, confident and motivated (Sparrow, 2003).

Outsourcing services must be delivered not only to specifications and service level agreements, but it must also focus on continuous improvement where the outsource vendor understands and listens to the organization and reacts to its requirements. The supplier must have quality staff, good staff management practices and provide superior technical expertise. There must be ongoing and effective communication between the organization and outsource vendor and the relationship between parties must be strong.

The influence of supplier relationship factors on outsourcing success, Telecom companies that developed collaborative supplier relationships were found to achieve higher levels of outsourcing success (Marshall, McIvor and Lamming, 2007). Dankbaar (2007) found that companies need to maintain a high level of supplier manufacturability review to improve likelihood of success when outsourcing manufacturing. Yallof and Morgan (2003) reported that service-level agreements with outsourcing partners were more successful and yielded greater benefits than traditional contractual agreements (Ehie, 2001). Once the agreement has been established, found that it was necessary to set up regular, periodic review meetings to revisit expectations and priorities, and to focus only on those aspects of performance factors that are truly critical to success. In some cases, however, closer relationships which resulted in higher levels of supplier integration did not result in lower costs, but did result in improved quality (McIvor, 2008). Thus, the results from studies that investigate the influence of supplier and supply chain management on outsourcing success are mixed.

According Poppo and Zenger (2002); Lee, Miranda *et al.* (2004) trust leads to outsourcing success. Competence-based trust substitutes the necessity of previous business relations that would allow client and vendor to get a better understanding of what type of agreement is being entered into (scope) and what the specific expectations of both parties about that agreement are (Sargent, 2006). It relies on an impled guarantee that the vendor will bring in their expertise to achieve mutual gains and is not willing to imperil their market reputation by underperformance. Kim and Lee (1999) defined relationship quality as predefined outcomes based on partners’ expectations.

Lee (2001) investigated the extent to which tacit (knowledge that lies in the practices and learned abilities of individuals) and explicit (expressible and communicable knowledge) knowledge are transferred between the parties as main determinants of outsourcing success (business value generated for both parties).

### 2.4 3 Core Competencies

Business process outsourcing has been prescribed as an important tool for attaining and maintaining a competitive advantage. Global sourcing is nothing less than the whole sale restructuring of the corporation around core competencies and outside relationship (Corbett, 1998). This exploratory empirical investigation into global business process outsourcing provides tentative avenues for increasing the probability of success of global business process outsourcing projects and raises many issues for further study of the outsourcing phenomenon. Business process outsourcing is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, or as Corbett, a leading consultant on global business process outsourcing asserts, "business process outsourcing is nothing less than the wholesale restructuring of the corporation around core competencies and outside relationships (Corbett, 1998).

The traditional global business process outsourcing emphasis on tactical benefits like cost reduction – cheaper labor cost in low-cost countries – have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild *et al.,* 1999). A core competency lies in an ability to differentiate outputs so that they match a market segment very precisely. To identify the core competencies requires assessment of the contribution of every activity undertaken in an organization, to decide whether: has a direct effect on satisfying customers' needs; would achieve comparable quality more cheaply; of resources to other activities would earn a superior return; benefits might arise from business process outsourcing such as lower inventory cost, reduced management time and improved production flow. An increased focus on a firm's core competencies is an important benefit associated with business process outsourcing (Dess *et al.*, 1995; Gilley and Rasheed, 2000).

Core competencies activities should be performed either in house or by suppliers. Activities, which are not core competencies, should be considered for business process outsourcing with best-in-the-world suppliers. Some non-core activities may have to be retained in house if they are part of a defensive posture to protect competitive advantage. Although some authors indicate characteristics of core competencies, most of the literature on this subject seems tautological – core equals key or critical or fundamental. Employees in non-core functions (even if not facing business process outsourcing) may feel excluded by the organization because they are a non-dominant discipline. For example, information technology employees working on web based legal services in a law firm may feel excluded by lawyers in the firm. In the public sector, there may be particular uncertainty about what is core; and it has been suggested that government may aim to discover its core competencies via a revisualization process (Hancox and Hackney, 2000).

### 2.4.4 Flexibility

Most companies consider business process outsourcing an effort to increase flexibility in the utilization of transportation and warehousing capacity and to reduce risks in IT investment. These are consistent with the findings from surveys in the US and Europe (Roodhooft and Warlop, 1999). Business process outsourcing is also used to provide seasonal workforce and to overcome constraints in production capacity. These also agree with previous research findings by Embleton and Wright (1998) and Kakabadse and Kakabadse (2000). The study also reveals that business process outsourcing has been used to convert a largely fixed cost business to one with variable costs in which expenses can change according to the business climate (Mclvor, 2003).

Several potential benefits may be achieved by business process outsourcing in-house activities (Harland *et al.*, 2005; Kremic *et al.*, 2006). One of these benefits is increasing the firm's flexibility capabilities. Because flexibility is viewed as a reaction to environmental uncertainty (Riley and Lockwood, 1997), it is important to extend the notion of flexibility beyond the factory floor linking it to market requirements (Olhager and West, 2002). Firms may outsource in order to obtain workplace flexibility to face environmental uncertainty and improve performance. However, the review of the literature indicates that the impact of business process outsourcing on firm performance is highly inconclusive.

Besides, no study has been found that has analyzed the concurrent impact of business process outsourcing and other workplace flexibility dimensions on firm performance. Workplace flexibility practices like multi-functional teams or temporary contracts are also aimed at reducing costs or increasing the flexibility capabilities of the firm.

The literature (Grenier *et al.,* 2004) usually classifies workplace flexibility into internal and external. Internal flexibility involves efforts to increase the firm's ability to adjust to changing circumstances through modifications of the internal labor market or work organization (functional flexibility and internal numerical flexibility) whereas external flexibility uses changes in the external labor market (external numerical flexibility) and business process outsourcing. Functional flexibility makes the deployment of individual workers to particular tasks more adaptable by implementing workplace practices such as multi-skilling teams or job rotation. Internal numerical flexibility involves a search for adjustment through changes in the amount or distribution of working time by using practices like overtime, flexi time or part-time contracts. Finally, external numerical flexibility makes the volume of labor more flexible by externally changing the level of employment through layoffs or the use of temporary employees.

Business process outsourcing presents organizations with the opportunity to avoid the constraints of their own productive capacity in meeting changes in the volume of sales. In situations where the pattern of sales displays seasonal or cyclical characteristics the penalties of under used in-house capacity may be avoided. However, care has to be taken in ensuring that a viable supply base is maintained that is capable of meeting peak levels of demand. The adoption of lean supply by Boeing has at times resulted in the company being unable to meet cyclical increases in the demand for aircraft. Lacking sufficient in-house production capacity the company has found that attempts to increase capacity have resulted in their drawing resources away from the company's suppliers. The potential for improved flexibility may apply not only to the volume of output but also the ability of the organization to change the product range in response to market conditions.

### 2.4.4 Access to Information

Knowledge transfer, both explicit and tacit, on the other hand, helps to assess the business value added through outsourcing arrangements. Explicit knowledge transfer could be gauged by looking at the nature of the information exchanged (general business know-how, source codes and user guides). Implicit knowledge sharing on the other hand could be assessed by the extent of training and direct contact amongst workers. The overall prognosis of relationship success hinges on its sustainability in the longer-term. Sustainability for this analysis measures the mutual desire of the client and service provider to keep the relationship going (Lee, 2001). With the ever growing interest for business process outsourcing, organizations should have closer collaboration with their partners and their success depends on successful interaction of various teams and stakeholders based in different locations.

Information and knowledge transferring and sharing without direct interaction among the concerned participants are necessary to have a successful partner's cooperation (Seshasai *et al.,* 2004). On one hand, knowledge sharing beyond one's organizational boundary in an extended network of participants will be inevitable. On the other hand, versus organization's resistance to keep core competencies and their own knowledge, there are many retaining, utilizing and creating knowledge problems arising from extending the scope of business process outsourcing in firms (Zhao *et al.,* 2004). The risk of loss of strategic information coupled with the threat of opportunistic behavior by another partners is a strategic challenge of business process outsourcing that determine the success or failure of BPO Strategy.

The resource-based theory of the firm holds that, in order to generate sustainable competitive advantage, a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable, and not readily obtainable in factor markets. Knowledge is an intangible resource for organization that could be as a strategic resource. Therefore, it is necessary using an intelligent KM system to manage the firm's knowledge as a strategic resource versus the threat of loss of strategic information (Gottfredson *et al*, 2005). Fritsch and Wüllenweber (2007) have investigated the effects of knowledge issues in success of business process outsourcing projects. They have argued that when a firm outsources in order to benefit from a set of complementary skills, the firm's management will have to be involved not only in the negotiation of the business process outsourcing contract, but also in methods of operation and interaction between the two firms.

Since the employees of the two firms would probably be mutually antipathetic, the management would have to establish the rules, forcing people to share each other's knowledge. They point out that firms business process outsourcing their knowledge-based processes for a quick return on investment might be in for a rude shock. To achieve success the degree of complementarily of knowledge between the firms is low, the results might not be this prescriptive. When the knowledge of the two employees are similar enough, sharing does not lead to a significant increase in each other's knowledge, but comes with its associated costs, which is often dire.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This identified the research design, the target population, procedures and techniques that were used in the collection, processing and analysis of data.

## 3.2 Research Design

The researcher adopted a descriptive case study research design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated.

Inferences about relationships between variables were made, from concomitant variables. The research design was chosen because the study was not confined to the collection and description of the data, but sought to determine the existence of certain relationships among the research variables (Mugenda and Mugenda, 2003).

## 3.3 Data Collection

The researcher used both primary and secondary data. Primary data was collected using an interview guide. These officers included: Senior Deputy Secretary, Senior Assistant Director SCM, Office Superintendent, Chief Finance Officer, Principal Accounts Control and ICT Assistant Director.

These officers had been chosen upon because of their key role in strategy formulation and implementation. In addition, the researcher made use of secondary data sources and literature. Secondary data was mainly collected from periodicals, publications, economic reviews, annual company accounts and commercial sources (Zikmund, 2003).

### 3.4 Data Analysis

Before processing the responses, the completed notes collected during the interview sessions were analyzed using content analysis. The responses were arranged and presented in prose form. The interview guides were edited for completeness and consistency. Content analysis was used to analyze the data that is of qualitative nature or aspect of the data collected.

The descriptive statistical tools such as Statistical Package for the Social Sciences (SPSS) helped the researcher to describe the quantitative data and determine the extent to be used. The data was then presented using descriptive statistics such as frequency distributions, tables, pie charts, line graphs etc.

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

## 4.1 Introduction

This chapter presents the analysis and interpretations of the data from the field. It presents analysis and findings of the study as set out in the research methodology on the implementation challenges of the business process outsourcing strategy in the Ministry of Transport in Kenya. The data was gathered exclusively from an interview guide as the research instrument. The interview guide was designed in line with the objectives of the study.

From the study 6 out of the 7 respondents targeted participated in the interview making a response rate of 85.7%. This commendable response rate was made a reality after the researcher made personal calls and visits to request the respondent to avail themselves for the interview guide as well as insisting the importance of participating in the study.

## 4.2 General Information of the Respondents

The study sought to establish the distribution of the interviewees in various departments within the Ministry. From the findings, the interviewees indicated that they worked in the Administration, Human Resource Management, Supply Chain Management Department, Office Superintendant, Information Technology and Accounts Department. On the designations of the interviewees, the study established that they were the: Director of Administration; Senior Assistant Director Human Resource Management; Senior Assistant Director Supply Chain Management; Office Superintendent; Principal accounts Controller and the Assistant Director Information Technology within the Transport

Ministry. The study did not manage to secure an interview with the Chief finance officer due to the tight operational schedule that he operated at the time of the study. This was partly due to end of year activities which involved preparation of the following year's budget.

The study also sought to establish the period the interviewees had been working at the transport ministry. From the findings it was revealed that majority of the interviewees had been in the ministry for a period of more than 5 years implying that they had had enough experience in the ministry to be able to provide the relevant information that could help answer the research questions about the challenges of implementation of the business process outsourcing at the ministry.

### 4.3 The Business Processes Outsourced by the Transport Ministry

On the major services that the Transport ministry had outsourced, the interviewees indicated that the most outsourced services as per their departments. The services outsourced in the human resources department included: Research and development where Employee Satisfaction Survey services, Corruption prevalence Survey services, Competence needs Assessment services, and Training Services were outsourced from outside organizations/ contractors.

The interviewees indicated that the services outsourced in the Supply Chain Management Department included: Air Ticketing – From agencies, Customer Satisfaction Survey services, and Garbage Collection services. The administration department outsourced security, and extermination and fumigation services as indicated by the interviewees. The interviewees further indicated that the service of maintaining and servicing information and communication technologies was outsourced in the ministry across all departments. The ministry also outsourced landscaping and gardening services and cleaning services. The main reasons advanced by the interviewees on outsourcing included the need for the ministry to concentrate on its core activities thereby increasing the efficiency of its officers.

### 4.4 Challenges of Outsourcing at the Ministry of Transport

The interviewees were required to identify the challenges the ministry faced while outsourcing some of the services. From the study findings, it was indicated by the interviewees that the ministry encountered the following challenges: lengthy bureaucratic payment processes within the ministry often lead to delayed payment of suppliers who become impatient and unwilling to transact with the ministry in further transactions. The interviewees pointed out that centralized system where all transactions have to pass through Treasury (Ministry of Finance) was a major challenge in the business process outsourcing practice at the ministry.

It was further indicated that the lack of IFMIS (Integrated Financial management Information System) Control was a challenge in the BPO process in that it slowed the transaction process. Political interference in the tendering process which compromised the selection of suppliers leads to selection of suppliers who are not the best in the market hence curtailing the BPO practices at the ministry as noted by the interviewees.

It was further revealed that the lengthy Procurement and payment procedures often discourage suppliers and creates conflicts which pose a major challenge in the BPO efforts within the transport ministry in Kenya. Another major challenge emerged to be the conflict of interest among employees (senior Management) and Supplier.

### 4.5 The relationship between the Ministry and the suppliers

The study sought to establish the kind of the relationship that existed between service provider and the transport ministry. From the interviewees opinions, the study found out that there has been a strained relationship between suppliers and the ministry that's in as far as payment of suppliers is concerned.

The interviewees indicated that there is delay of payment to the supplier which is usually characterized by government bureaucratic payment procedures run by the treasury (Ministry of Finance) which is long and takes time before payment is approved by the Authorized Officer.

### 4.6 The impacts of Business Process outsourcing within the Ministry

The interviewees were required to indicate the main reason ministry to outsource business services. Majority of the interviewees indicated that the ministry outsource in order to realize cost efficiency; for technical considerations, increase productivity/performance and the need to focus on core activities.

The respondents also indicated that the ministry is motivated to outsource for quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise and economies of scale. Thus the transport ministry aimed at meeting changing customer needs, making better use of time and energy costs, redirecting or conserving energy directed at the competencies of the business, or to make more efficient use of labor, capital, (information) technology and human resources. BPO enabled the Ministry to outsource non core activities thereby creating more time for its staff to concentrate on their core business hence increase efficiency.

On the hazards of BPO, the interviewees noted that the BPO strategy in the transport ministry had exposed the ministry to insecurity of information important and confidential to the ministry. The interviewees further indicated that the adoption of the BPO strategy had served to cultivate conflict of interest between service providers and ministry officials. IT was also noted by the interviews majorly that the BPO strategy was being curtailed by the lack of control of service providers and the sabotage from suppliers in the event of delayed payment crippling Ministry's operations.

### 4.7 Knowledge of Vender Management information among the interviewees

On whether the interviewees had any had clear information on vendor management at the Ministry, the study found that majority of the managers indicated they were guided by the following documents when outsourcing: the Public procurement and Disposal Act & Regulations, the Public Private Partnership Act, the Market Survey Price Index and the Regular Treasury Circulars that were vital in streamlining outsourcing of services and the management of venders in the ministry and the larger public Service.

Moreover, the interviewees pointed out that there was commitment from the top executives in the Ministry of Transport in ensuring successful implementation of BPO strategy is achieved. The ministry had been supportive in implementing BPO Strategy as enumerated in their Strategic Plan 2008-2012.

### 4.8 Effect of vender management information on the implementation of BPO strategy at the Ministry

On how information about vendor management had affected the BPO implementation at the Ministry, majority of the interviews opined that the public procurement and disposal Act and regulations and the public private partnership act had majorly improved the process of selecting venders by provide regulations on who should qualify to be selected ad a vender/ supplier of certain services being outsourced within the ministry.

The interviewees noted further that information from the Market survey Price index had served to reach the appropriate price for the services offered by venders and hence reduced conflicts arising from price determination among the managers and the suppliers. The information was also viewed by the interviewees as being vital in the process of reducing bureaucracy in the process of paying the suppliers of the services outsourced by the ministry.

### 4.8 Support of the ministry management to the implementation of the BPO strategy

Asked whether the Ministry management had been supportive of the BPO implementation and how it had affected the implementation process, majority of the interviewees noted that the management had been very supportive and pointed at the enumeration of the BPO strategy in the Ministry’s strategic plan for the period 2008-2012 as a major indicator of the management's commitment to the strategy. They also indicated that through departmental procurement plans, Ministry's staff have been involved in the BPO implementation in the Ministry. They however felt that measures should be put in place to ensure that services projected in the procurement plan are acquired in time.

The interviewees were positive about the effect of the ministry's management support as majority of them were in agreement that the ministry was achieving its cost effectiveness objective which was one of the driving factors towards BPO strategy formulation in the Ministry of Transport.

### 4.9 Effects and remedies of BPO implementation on the in-house staff

Majority of the interviews asked if BPO implementation affected the in-house staff in any way and what had been the solutions in place indicated that the BPO implementation process had lead to conflicts of interest among the senior managers in the ministry and the suppliers. This had served to cripple the BPO strategy implementation.

On the other hand, BPO strategy implementation had increased commitment among the in-house staff. The interviewees cited that the outsourcing practices in the ministry allowed them more time to concentrate on the core functions of the ministry hence increasing efficiency and productivity among them.

### 4.10 The effect of BPO strategy on the satisfaction of the end users

The interviewees were required to state whether the end users of the outsourced services through the implementation of the BPO strategy were happy with the services offered. From the finding, majority of the interviewees noted that those suppliers chosen through the right procedure and who qualified in the service they offered made the end users happy.

On the other hand, majority of the interviewees indicated that politically endorsed suppliers did a shoddy work end as they did not satisfy the end users. This is because they are protected by the politicians who endorsed them as majority of them are related to the politicians and thus have to satisfy the interests of the politician without their tender being cancelled.

### 4.11 Hazards associated with the outsourcing implementation at the Ministry

In addition, the interviewees were also asked to indicate whether there were any hazards associated with the BPO strategy implementation at the ministry. From the interview conducted the study established that majority of the interviewees implied that indeed there were hazard associated with outsourcing implementation at the Ministry.

They cited security of information, conflict of interest between service providers and Ministry officials, lack of control of service providers, and sabotage from suppliers in the event of delayed payment- crippling Ministry's operations as hazard associated with outsourcing implementation.

### 4.12 Capacity of the in-house team to implement the BPO process

On the capacity of the in-house team to implement the BPO process, it was evident that majority of the interviewees indicated that the in-house team through the supply chain management Department under the directions of various departments had enough capacity to implement the BPO strategy in the Ministry.

They further indicated that the SCM department through the directions of the various departments outsources for services and in turn implement the BPO strategy in the Ministry. The however suggested that departmental heads should be empowered to fully carry out the BPO process and fully implement their Departmental Procurement plans.

### 4.13 Discuss of Findings

This study had one objective of establishing the implementation challenges of BPO strategy at the Ministry of Transport in Kenya. From the research findings presented above, the study established that lengthy bureaucratic payment processes within the ministry often led to delayed payment of suppliers who became impatient and unwilling to transact with the Ministry in further transactions. There was also lack of IFMIS (Integrated Financial management Information System) Control in the BPO process in that slowed the transaction process.

These findings are in agreement with those of Otley, (2001) who argued that the challenges to successful strategy implementation included the impact of an organization's existing management controls and particularly its budgeting systems (Reed and Buckley, 1988). The Ministry allocated a budget for every process in the implementation. However, during the strategy implementation phase, several other challenges surfaced thus delaying the implementation process. These findings are consistent with those of Alexander (1985) who in his outline listed ten most frequently occurring strategy implementation problems include underestimating the time needed for implementation and major problems surfacing that had not been anticipated, in addition uncontrollable factors in the external environment had an adverse impact on strategy implementation.

The findings indicate that there had been a strained relationship between suppliers and the Ministry in as far as payment of suppliers was concerned. Delay of payment to the supplier which was usually characterized by government bureaucratic payment procedures run by the treasury (Ministry of Finance) which was long and took time before payment was approved by the Authorized Officer. This in term led to customers calling in demanding that the Ministry honors its obligations.

If an outsourcing arrangement is to be successful at the Ministry, it needs to be managed with care, attention to detail, vision about what might be achieved, close monitoring of financial issues and sensitivity to the needs of different stakeholders. This will create a stronger relationship between the Ministry and its vendors. These findings are consistent with those of Akomode, Lees and Irgens (1998) who indicated that for stronger and long lasting relationship between the firms and the outsourced vendor needs to be build on clear and good communications. There must be ongoing and effective communication between the organization and outsource vendor and the relationship between parties must be strong.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations were drawn are in quest of addressing the research question or achieving at the research objective which is the implementation challenges of the business process outsourcing strategy in the Ministry of Transport in Kenya.

## 5.2 Summary of Findings

The study found that majority of the departments in the Transport Ministry outsource various business processes including: security services; cleaning services; landscaping and gardening services; extermination and fumigation; servicing of ICTs; air ticketing; customer satisfaction survey; employee satisfaction survey; corruption prevalence survey; competence needs assessment; training services and garbage collection.

The researcher also found that the major challenges experienced as a result of outsourcing include: Lengthy Bureaucratic Payment Processes delaying payment of Suppliers; Lack of a Decentralized system- all transactions have to pass through Treasury (Ministry of Finance); Lack Of IFMIS system Control; Political interference in the tendering process- compromising selection of suppliers; Lengthy Procurement and payment procedures often discourage suppliers and creates conflicts and Conflict of interest among employees(senior Management) and Suppliers.

The study also established that there has been a strained relationship between suppliers and the ministry that's in as far as payment of suppliers is concerned. This is often occasioned by bureaucratic payment procedures run by the treasury (ministry of Finance). The study also revealed that the Business Process Outsourcing strategy had led to cost reduction; better services and had allowed the ministry's staff to concentrate on core competencies.

The study also established that the ministry outsource in order to realize cost efficiency; for technical considerations, increase productivity/performance and the need to focus on core activities. The ministry is motivated to outsource for quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise and economies of scale.

The interviewees noted further that information from the Market survey Price index had served to reach the appropriate price for the services offered by venders and hence reduced conflicts arising from price determination among the managers and the suppliers. The information was also viewed by the interviewees as being vital in the process of reducing bureaucracy in the process of paying the suppliers of the services outsourced by the ministry.

The study revealed that the management had been very supportive and pointed at the enumeration of the business process outsourcing strategy in the Ministry's strategic plan for the period 2008-2012 as a major indicator for the management's commitment to the strategy. It was also established that those suppliers chosen through the right procedure and who qualified in the service they offered made the end users happy.

The study found that the following hazard come with the BPO strategy in the ministry: security of information, conflict of interest between service providers and ministry officials, lack of control of service providers, and sabotage from suppliers in the event of delayed payment- crippling Ministry's operations. The study further revealed that the in-house team through the supply chain management Department under the directions of various departments had enough capacity to implement the BPO strategy in the Ministry.

**5.3 Conclusion**

From the study findings, the researcher concludes that the business operations that the Ministry of transport outsources include security services; cleaning services; landscaping and gardening services; extermination and fumigation; servicing of ICTs; air ticketing; customer satisfaction survey; employee satisfaction survey; corruption prevalence survey; competence needs assessment; training services and garbage collection. The study also concludes that the factors that drive transport ministry to outsource its business operations include a need to realize cost efficiency; for technical considerations, increase productivity/performance and the need to focus on core activities. The ministry is motivated to outsource for quality improvement, gaining access to new talent and technology and redirecting or conserving energy directed at the competencies of the business.

The study also revealed that the challenges facing ministry in implementing the adopted BPO strategies include Lengthy Bureaucratic Payment Processes delaying payment of Suppliers; Lack of a Decentralized system- all transactions have to pass through Treasury (Ministry of Finance); Lack Of IFMIS system control; political interference in the tendering process- compromising selection of suppliers; lengthy procurement and payment procedures often discourage suppliers and creates conflicts and conflict of interest among employees(senior Management) and Suppliers. The study further concludes that the ministry had accrued some benefits from business process outsourcing such as cost reduction; better services and had allowed the ministry's staff to concentrate on core competencies.

### 5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that for the Ministry of transport in Kenya to succeed in its outsourcing the good communication should be ensured, job quality should be a priority, strict rules should be implemented to guide outsourcing, an explanation should be given to the entire staff why the Ministry has to outsource, benefits of outsourcing should also be made clear to all the ministry employees and stakeholders, there should be a thorough follow-up (supervision) so that the work is done professionally and in good time and also costs should be considered before outsourcing to make sure that they do not exceed the benefits of outsourcing.

The study also recommends that bureaucracy in the supplier payment process should be reduced in order to encourage good relationship between the suppliers and the ministry and increase the benefits of BPO in the ministry. It is further recommended that the ministry should develop clear criterion for selection of a vender to supply the services the ministry intends to outsource in order to counter the challenge of conflict of interest among the employees and the suppliers. .

The study further recommends that the Ministry should counter political forces in the choosing of the venders by ensuring proper corporate governance and ethics are in place to scrutinize the venders in the order of merit and capability. Corporate governance is important in building credibility of the operations of the ministry and ensure that fairness is enhanced.

**5.5 Limitations of the Study**

Being that this was a case study on one ministry the data gathered might differ from implementation of the business process outsourcing strategy in other ministries. This is because different ministries and parastatals adopt different strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the challenges of implementation of the business process outsourcing strategy.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on implementation challenges of the business process outsourcing strategy. Due to limited finances the study could not be carried out on the other offices of the ministry. The study, however, minimized these by conducting the interview at the Ministry's headquarter since it is where strategies are made and rolled out to other office that operate on the blue print.

## 5.6 Area for Further Research

The study recommends that further research should be done on the policy measures that can be strategically developed in order to enhance the relationship between government ministries and venders responsible for supplying outsourced services, so as to ensure mutual understanding between stakeholders and achieve optimum results.

Further study should look at how to reduce bureaucracy in the payment of government expenses and ensuring that the venders chosen are qualified and able to serve the appropriately. The researcher further recommends that a similar study be done on the private sector institutions for the purposes of benchmarking.

## 5.7 Implications on Policy, Theory and Practice

The Kenyan public sectors especially the Ministry of Transport and other Outsourcing Organization should use the study to benefit the organization by formulating strategies to counter the challenges of BPO strategy and enhance successful implementation of BPO. The government and policy makers should get insight from the study in formulating policies regarding regulatory requirements of the Kenyan outsourcing firms that will promote successful implementation of BPO in the organization.

The academicians would use that the study as a basis upon which further studies on business process of outsourcing could be researched. The findings contribute to professional extension of existing knowledge in business processing outsourcing by providing literature on challenges of BPO implementation. It also serves as a source of reference for future scholars besides providing areas of further research on BPO.

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# APPENDICES

## Appendix I: Interview Guide

Part I: General Information of the Respondent.

1) Name of Respondents ………………………………………………………………………
2) Which department are you in? ………………………………………………
3) How many years have you worked in the Ministry of Transport ……………………….
4) Does your department outsource any business processes? Which business process do you outsource?
5) Are there any challenges that you have experienced in the implementation of the outsourcing processes? If yes, please outline the major ones.
6) Are the Ministry Managers having clear information on vendor management?
7) How has this information about vendor management affected the BPO implementation at the Ministry?
8) Has the Ministry management been supportive of the BPO implementation? How has this affected the implementation process?
9) Has there been mutual understanding between the Ministry and the outsourced service provider? How has this understanding affected service delivery?
10) Has the BPO implementation affected your in-house staff in any way? What have been the effects and how have they been dealt with?
11) Are the end users of outsourced services happy with the services delivered? Please explain
12) Are there hazards associated with the outsourcing implementation at the Ministry? What are they?
13) Does the Ministry have enough in-house team to implement the BPO process?
14) In your opinion, what are the challenges that the Ministry has faced in implementation of BPO?

## Appendix II: Letter from the University

## Appendix III: Letter from Ministry of Transport