CHALLENGES OF BUSINESS PROCESS OUTSOURCING AT
KENYA POWER AND LIGHTING COMPANY LIMITED

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A Management Research Project Submitted in Partial Fulfilment of the
Requirement for the Degree in Master of Business Administration,
School of Business, University of Nairobi

SEPTEMBER 2010
DECLARATION

The research project is my original work and has not been submitted for a degree in any other university

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D61/71181/2009

Signed: ....................................................... Date: ...........................................................

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

Mr. Jeremiah Kagwe

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Signed: .......................................................... Date: ..........................................................
DEDICATION

I dedicate this research study to my wife, Mrs. Lucy Wamuyu, sons and daughters who have always stood by me during trying times; I Love You So Much.
ACKNOWLEDGEMENT

First of all, I would like to thank the Almighty God for his providence of strength and grace that have enabled me to complete this research project and the entire MBA programme.

I would also like to thank my family, wife, Mrs. Lucy Wamuyu, and children, Belinda Wachera, Caroline Wanjiru, Alvin Kinyua and Mark Thandi, who stood by my side and encouraged me during this demanding time. I also extend the same to my parents who heavily invested in my education and made it possible for me to achieve my desired objectives. I also thank my brothers and sisters whose shared values were fundamental in academic endeavours.

I would also like to thank my supervisor, Mr Jeremiah Kagwe, for his excellent guidance and assistance which enabled me complete the project. Lastly, I would say a big thank you to Kenya Power and Lighting Company Limited for creating enabling environment for my entire MBA programme and employees who took time to respond to the interviews.
ABSTRACT

Business outsourcing has become an important business strategy because it enables businesses to reduce and control operating costs, to improve company focus, to gain access to world class capability and to free internal resources for other purposes. The energy sector is currently being liberalized and this has attracted other players in the industry who have now been mandated to generate power for example the Mumias Sugar Company. Although KPLC still remains a monopoly in distribution, the environment is rapidly changing. It used to be the sole transmitter of electrical energy until the formation of a new company, namely Kenya Transmission Company Limited in 2008, which is mandated to build and own new transmission lines. The purpose of this study is to establish the challenges facing KPLC in implementing the BPO strategies and to identify the business operations that KPLC outsource. This research was conducted through a case study. The researcher used an interview guide as primary data collection instrument. The interview guide was administered through personal interviews with the Managing Director, Chief Managers, Managers, Regional Managers and chief officers of KPLC. Data collected was qualitative and it was analyzed by content analysis.

From the study findings, the study concludes that business process outsourcing (BPO) is done in all departments at KPLC. The driving factors of BPO are inadequate in-house capacity, excess workload, cost reduction and skills gap, cost of in-built process which were high and hence outsourced to reduce costs, considerations of efficiency in terms of special skills required a variety of skills. Poor quality assurance and control and outsourced services being prone to delays in delivery are some of the challenges faced during business BPO. The study recommends that KPLC should take in-built quality control measures, strict timeliness/deadlines, penalties for non-performance, strict contracting measures/procedure which ensures that it gets the most competitive outsourced services. The company should ensure that confidentiality is upheld by the contracted firms by spelling out rules and regulations and other documentation where all contracting parties abide in writing and all processes outsourced must be laid down through proper legal contracting.
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<th>Full Form</th>
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<tr>
<td>BPO</td>
<td>Business Process Outsourcing</td>
</tr>
<tr>
<td>EAPLC</td>
<td>East African Power &amp; Lighting Company Limited</td>
</tr>
<tr>
<td>ERC</td>
<td>Electricity Regulatory Commission</td>
</tr>
<tr>
<td>ESRs</td>
<td>Energy Sector Reforms</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GoK</td>
<td>Government of Kenya</td>
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<tr>
<td>IPP</td>
<td>Independent Power Producers</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>KenGen</td>
<td>Kenya Electricity Generation Company</td>
</tr>
<tr>
<td>KPLC</td>
<td>Kenya Power &amp; Lighting Company Limited</td>
</tr>
<tr>
<td>REC</td>
<td>Rural Electrification Company</td>
</tr>
<tr>
<td>SCADA</td>
<td>Supervisory Control and Data Acquisition system</td>
</tr>
<tr>
<td>SAP</td>
<td>System Application and Product software</td>
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<tr>
<td>ICS</td>
<td>Integrated Customer Service System</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In general, outsourcing can be related to make-or-buy decisions on intermediate goods, to the hiring of temporary labour, and to the use of external services. The term outsourcing is used to describe all the subcontracting relationships between firms, and the hiring of external workers. It is presumed that firms engage in outsourcing activities because they expect a positive impact on firm performance by saving resources in terms of both labour and capital. If for instance intermediate goods are no longer internally produced but purchased from an external supplier, this leads to a reduction of both labour costs and capital investments. In the absence of transactions costs, a firm will decide to outsource when the market price for an outsourced activity is lower than internal marginal costs for that activity (Fixler and Siegel, 1999).

Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non-core company work. More companies prefer to own brand rather than physical assets they are de-capitalizing. A few companies are moving toward hiring outside parties to provide almost all services (Kotler, 2003).

Companies outsource a wide range of services, all aimed at creating competitive advantages. These are accounting and financial services, human resource services, customer care services, security services, and cleaning services. This is because these services are non-core and repetitive in nature thus similar in almost all organizations. Furthermore they can be done by an outside company at cheaper cost or at the same cost but in better ways (Quinn, 1992).
In meantime, outsourcing is generating interest among local firms, banks, institutions, and organizations, though for different reasons. Many organizations are now outsourcing, albeit minimally. They are handing out support functions such as transport management, cleaning services and mail handling to third parties. This process is having direct implications on human resource. Outsourcing can render an entire department redundant, even as it creates employment in the specialist company that is sub-contracted (Wamari, 2007). As Okuttah (2007) asserts, Kenya is slowly coming to terms with the enormous potential of BPO.

Business process outsourcing has now been earmarked among key vehicles to the implementation of vision 2030. The vision, which aims at a GDP growth rate of 10 percent per annum over the next 25 years, has a proposal to design and establish one major BPO park in Nairobi, that will have world class infrastructure developed by top international suppliers. BPO involves providing services via the internet to companies and organizations in the developed world like Britain, USA and Canada (Ratemo, 2007).

Some Kenyan organizations are subcontracting some of their functions and it is often viewed as a means of augmenting limited resources and skills while enabling the companies to concentrate on their area of expertise. In the last century there has been a rapid growth in the use of the term outsourcing. KPLC as a major service organization in Kenya has not been left behind in business process outsourcing. This is due to the realization that business process outsourcing is a competitive strategy in enhancing service quality and cost reduction (Ciano, 2007).
1.1.1 Concept of Business Process Outsourcing

Outsourcing is a business philosophy that implies employing other people to do things for you. Outsourcing is not a new concept. It has most likely been used in one form or another in many businesses. What is different today is the rapid growth in the use of the term. Many organizations are working towards the concept of organization dealing with core or strategic activities, surrounded by a network of smaller companies and individuals (associates) providing a range of supporting ancillary services on contracted basis. These services must be performed at the highest standard possible so as to meet quality requirements (Daniels, 1998).

Quinn (1992) proposes that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing more narrowly on the things they do best. However Bettis, Bradley and Hamel (1992) argue that outsourcing may reduce organizational innovations, and may shift knowledge to supplier organizations, and may reduce control over a firm’s activities. In this way, outsourcing may destroy long-run competitive advantage.

As organization’s redirect valuable internal skills and capabilities to high value adding activities, the outsourcing debate has moved from whether to outsource, to what, and the quality of outsourced services. To become truly competitive, corporations have been downsizing, rightsizing, restructuring and re-engineering (Venkatraman, 1997).
1.1.2 Methods of Outsourcing

There are several ways in which a company’s resources can be leveraged. As Quinn (1992) show, one of the ways is through maximization of returns on internal resources by concentrating investments and energies on what the enterprises does best. Another way is through well-developed core competences providing formidable barriers against present and future competitors that seek to expand into the company’s areas of interest. This helps in facilitating and protecting the strategic advantages of market share. Another way is through full utilization of external suppliers’ investments, innovations and specialized professional capabilities to duplicate internally. Lastly, a company’s resources can be leveraged through joint venture strategy which is said to decrease risks, shorten cycle times, lower investment and create better responsiveness to customer needs.

The generic methods of outsourcing are proposed as; peripheral outsourcing and core outsourcing. The first type occurs when firms acquire less strategically relevant, peripheral activities from external suppliers. The second type occurs when firms acquire activities that are considered highly important to long-run success. What constitutes a core or peripheral activity is essentially a judgement by each individual firm, based on what it considers as its core competency and the strategy it intends to pursue. Thus, although it is possible that some similarities may exist within the industry, there is considerable scope for variation among firms within the industry (Gilley and Rasheed, 2000).
In outsourcing, you are not buying merchandise or products or services, but rather capacity, time or expertise. The outsourcer here could be defined as a service provider, outside the company acting as an extension agent of the company’s business but responsible for its own management (Barnett, 1996).

1.1.3 Challenges of Implementing the Outsourcing Strategies

Before an organization decides to outsource all or part of customer care services, it is essential that the management understands exactly what happens in that function. Though it may take a while to identify all the activities associated with running a customer care department, not to mention what they cost, this information is central to any outsourcing decision. Once these have been identified, the organization can begin to determine which service if any, should be outsourced. The decision to outsource is said to originate from two main factors, technology and competition (Byham, 2000).

Although outsourcing’s potential benefits are many, some argue that reliance on outsider suppliers is likely to lead to a loss of overall market performance (Bettis et al., 1992; Kotabe, 1992). One of the most serious threats resulting from a reliance on outsourcing is declining innovation by the outsourcer. Outsourcing can lead to a loss of long-run research and development competitiveness, because it is often used as a substitute for innovation. As a result, firms that outsource are likely to lose touch with new technological breakthroughs that offer opportunities for product and process innovations (Teece, 1987).
There are several other dangers associated with outsourcing. First, the cost savings associated with outsourcing may not be as great as they seem, especially with respect to foreign suppliers. The transaction costs associated with repeated market-based transactions, especially overseas, can be significant. Nevertheless, as long as foreign wages remain relatively low and the dollar remains relatively strong, foreign outsourcing is attractive (Markides and Berg, 1988).

Also outsourcing requires a shift in overhead allocation to those products or activities that remain in-house. This reallocation of overhead, degrades the apparent financial performance of the remaining products or activities and raises their vulnerability to subsequent outsourcing (Bettis, et.al., 1992), perhaps leading to an outsourcing spiral. Thus, those remaining products and activities that were performing satisfactorily before onset of outsourcing may erroneously be targets for future outsourcing.

1.1.4 The Kenya Power and Lighting Company Limited (KPLC)

The story of the Kenyan energy sector is that of liberalization. The enactment of the Electric Power Act Cap. 314, the Petroleum (Exploration and Production) Act Cap 308 of the laws of Kenya, and the Geothermal Resources Act (1997) set pace for the liberalization of the energy sector. The Electric Power Supply Act Cap 315 and Electric Power Act Cap. 314 gave rise to the establishment of KPLC, through an Act of parliament, in order to facilitate and regulate the generation, transmission, transformation, distribution, supply and use of electric energy for lighting and other purposes, and for purposes connected therewith.
KPLC is a limited liability company which transmits, distributes and retails electricity to customers throughout Kenya. KPLC is a public company and is listed at Nairobi Stock Exchange. KPLC has recently gone through a rebranding process to enhance its competitive position. The rebranding process has seen the company adopt a new vision and mission. The new vision is “to provide world class power that delights customers”, while the new mission is “powering people for better lives”. KPLC has been a monopoly in both transmission and distribution of electricity in Kenya since its incorporation in 1922.

The electricity sector reforms that were substantially completed by mid 1999 in line with the GoK, ESRS resulted in KPLC vertically integrated business process being unbundled and placed under two separate entities; Generation and generation assets management was placed under Kenya Electricity Generation Company(KenGen) a wholly owned GoK company, and also marked the initial entry of privately owned Independent Power Producers (IPP) as private entrants selling bulk power to KPLC.A regulation body-Electricity Regulatory Commission (ERC) was also established to oversee the sub-sector operations, ensure competition in the sub-sector generation and set/review tariffs in the electricity sector. The government was left with the role of policy and guidance and KPLC new business process and operations was changed to transmission, distribution and customer service, all under the monitoring and regulated by ERC. Further KPLC entered into multiple power purchase agreements with Private generators (Ciano, 2006).
In the year 2007 as part of continued government liberalization of the energy sector, Rural Electricity Authority was established and it took over the management of rural electrification programmes which used to be under KPLC. In the following year 2008, another government owned company (Kenya Electricity Transmission Company) was incorporated to manage new transmission infrastructure development. The entrance of Kenya Electricity Transmission Company is meant to open up the electricity sector to competition. Consequently KPLC has adopted modern management tools to survive in this competitive environment. KPLC has done a lot of restructuring in its operations in order to cope up with the new challenges including increased demands for high quality service from the customers and stakeholders.

In an attempt to decentralize service delivery, KPLC has recently restructured its business and created smaller sub units called Business units. The company has also adopted Business process outsourcing as one of the key strategies in order to enhance achievement of the company objectives. The outsourcing strategies are meant to improve company performance, reduce operational costs, and improve company responsiveness to changing business environment and help the company achieve the yearly performance target of creating 200,000 new customers.

The performance of KPLC has been impressive as indicated by (KPLC financial report, 2008). The turnover in the year 2008 was Kshs 41.8 billion compared to Kshs38.4 billion in 2007. The labour force in 2008 was 6,668 employees compared to 6,399 employees in 2007.
1.2 Statement of the Problem

Business outsourcing has become an important business strategy because it enables businesses to reduce and control operating costs, to improve company focus, to gain access to world class capability and to free internal resources for other purposes. The energy sector is currently being liberalized and this has attracted other players in the industry who have now been mandated to generate power for example the Mumias sugar company.

Although KPLC still remains a monopoly in distribution, the environment is rapidly changing, it used to be the sole transmitter of electrical energy until the formation of a new company, namely Kenya Transmission Company Limited in 2008, which is mandated to build and own new transmission lines. Rural Electrification Company (REC) has on the other hand taken up most of the rural schemes which previously used to be managed by KPLC.

The KPLC stakeholders and customers have also not been left behind and have increasingly continued to demand better services in relation to power supply. The government and regulatory body have gone ahead and requested the company to come up with a customer service charter stipulating service delivery standards. This means the environment under which the company is operating in, is rapidly changing and hence for KPLC to survive and remain competitive in the market it needs to apply business process outsourcing strategy.
Previous studies relating to business process outsourcing have been undertaken as depicted below; Kinyua (2001) conducted a study on outsourcing of selected financial activities by large firms quoted in the Nairobi Stock Exchange. He argues that for a company to be successful it should have a portfolio of competencies rather than a focus on profit. Another study conducted by Kirui (2001) focused on BAT (British American Tobacco) as a case study; it focused on how competitive advantage through outsourcing of non-core logistics activities within the supply chain of BAT could be beneficial. Nyarandi (2001) found out that although most outsourcing initiatives are formed with clear objectives, implementations if not carried out well may give rise to dissatisfaction in outsourcing. Another study undertaken by Motari (2002) addressed outsourcing of logistics in the manufacturing sector. Machoka (2008) conducted a study on business process outsourcing strategy in the audiovisual industry in Kenya. The following are some of the recent studies done on KPLC; Wahogo (2006) studied response of KPLC to changes in environment. Ciano (2007) studied strategy and structure at KPLC.

Drawn from the above studies, it is observed that no study has been carried out on challenges of implementing business process outsourcing at KPLC. Consequently, this study sought to address the following questions at KPLC. What are the challenges of implementing business process outsourcing strategies? Thus the study sought to bridge the gap in the above previous studies conducted in different fields and environments.
1.3 Objectives of the Study

The objectives of this study were:

i) To establish the challenges facing KPLC in implementing the BPO strategies.

ii) To identify the business operations that KPLC outsource.

1.4 Significance of the Study

Stakeholders – It is an important blueprint for the other players in the electricity generation transmission and distribution sector.

Management of KPLC – It assist the management of the company to know the major challenges being faced by the company in implementation of BPO strategy and the research information may be used in assisting the company to come up with best solutions to manage the challenges.

Academic scholars and researchers – Can use this study as a basis for further research into areas such as perception of quality of outsourced customer care services compared to in-house services in private companies.

Government and policy makers – It assist the government in the formulation of policies and regulations governing the players in the electricity generation industry.
CHAPTER TWO: LITERATURE REVIEW

2.1 Business Processing Outsourcing

Outsourcing is a fast-growing aspect of the world economy a worldwide spending of about US $ 3.7 trillion in 2001 (Clott, 2004). Outsourcing involves transferring certain value contributing activities, process and/or services to the premises of one’s own or an agent primarily to save costs own or an agent primarily to save costs and or for the principal to increasingly focus on its areas of key competences. The structure of this principal-agent relationship varies from loose networks to neatly packed pyramidal structures (Ramachandran and Voleti, 2004).

According to Adams and Hotman (1996), the term outsourcing became more popular in the early 1990s when large companies began to downsize or re-engineer their business, seeking to become more efficient. They often found that there were certain processes they supplied that could not get run as efficiently as they would like, no matter how they tried. As a result of this and in an effort to become better in what they do, the concept of business process outsourcing was developed.

Kotabe (1992) contends that, in outsourcing, you are not buying merchandise or products or services, but rather capacity, time or expertise. The outsourcer here could be defined as a service provider, outside the company acting as an extension/agent of the company’s business but responsible for its own management. Outsourcing is also used to provide seasonal workforce and to overcome constraints in production capacity. In addition outsourcing decisions should be made from a strategic perspective and be fully integrated into the business planning process to achieve long-term success (Benson and Leronimo, 1996).
Price Waterhouse Cooper (1999 in Lau and Zhang, 2006) study highlights the powerful and critical impact of outsourcing on service providers. Participants in a business process include employees, information partners, machines, trucks, goods, even business processes themselves (for example as occurs in outsourcing). Change occurs through the acquisition or loss of these participants, through the growth or contraction of relationships among them and their interactions with the environment. A business process “moves” as-it-changes in the multi-dimensional space of time and structure evolution. Like a living entity under the influence of Darwinian evolution, it exists in the past, the present and has possible futures (Lankford and Parsa, 1999).

2.2 Outsourcing Strategies

Strategic considerations such as the use of outsourcing to accelerate re-engineering benefits, to focus on core competence, to increase flexibility, and to facilitate market penetration, are usually identified. Environmental factors like information technology (IT) development and capability of supplier can influence organizations’ decisions to outsource (Lau and Zhang, 2006).

Outsourcing has become a critical strategic decision that can allow organizations to develop and leverage the capabilities required to compete in today’s global business environment. Outsourcing is increasingly being employed to achieve performance improvements across the entire business. Leading firms have been adopting more sophisticated outsourcing strategies and have been outsourcing core processes such as
design, engineering, manufacturing, and marketing. These organizations have been benefiting greatly from accessing the specialist capabilities of supplier in a range of business processes (Aron and Singh, 2005).

Too often companies look at outsourcing as a means to lower short-term direct costs. However, through strategic outsourcing, companies can lower their long-term capital investments and leverage their key competencies significantly. They can also force many types of risk and unwanted management problems onto suppliers (Quinn and Hilmer, 1994).

Many specialists’ suppliers can develop a greater depth of knowledge, invest more in systems and processes, and achieve efficiencies through economies of scale and experience. Leveraging the capabilities of more capable suppliers allows organizations to outsource more critical business processes and enhance their own internal core capabilities that drive competitive advantage. However, many organizations are failing to capitalize on the opportunities offered by outsourcing. Many organizations continue to make outsourcing decisions on a piecemeal basis and fail to develop outsourcing strategies for their processes that allow them to compete in the global economy (Gottfredson; Puryear and Phillips, 2005).

In deciding on an outsourcing strategy for a particular segment of their business, managers have a wide range of control options, where there is a high potential for vulnerability and a high potential for competitive edge, and tight control, this include office cleaning services (Clott, 2004).
Effective strategies seek out places where there are market imperfections or knowledge gaps that the company is uniquely qualified to fulfil and where investments in intellectual resources can be highly leveraged. Companies consistently make more money than their competitors only if they can perform some activities, which are important to customers, more effectively than anyone else. True focus in strategy means the capacity to bring more power to bear on a selected sector than any competitor can. Once, this meant owning and managing all the elements in the value chain supporting a specific product or service in a selected market position (Quinn and Hilmer, 1994).

The key strategic issue in insourcing versus outsourcing is whether a company can achieve a sustainable competitive edge by performing an activity internally, usually cheaper, better, in a more timely fashion, or with some unique capability on a continuing basis if one or more of these dimensions is critical to the customer and if the company can perform that function uniquely well, the activity should be kept in house (Quinn, 1992).

Many companies can substantially leverage their resources through strategic outsourcing by developing a few well-selected core competencies of significance to customers and in which company can be best-in world, focusing investment and management attention on them, and strategically outsourcing many other activities where it cannot be or need not be best. There are always some inherent risks in outsourcing, but there are also risks and costs of insourcing. When approached within a genuinely strategic framework using the variety of outsourcing options available and analyzing the strategic issues developed, companies can overcome many of the costs and risks when intelligently combined, core
competency and extensive outsourcing strategies provide improved returns on capital, lowered risk, greater flexibility, and better responsiveness to customer needs at lower costs (Maloney, 1992).

The basic ideas behind core competences and strategic outsourcing have been well supported by research extending over a twenty year period. Rumelt (1974) noted that neither of the then-favoured strategies; unrelated diversification or vertical integration yielded consistently high returns. Since then, other carefully structured research has indicated the effectiveness of disaggregation strategies in many industries.

2.3 Methods of Outsourcing

Over the past two decades, many organizations have shifted dramatically toward the use of outsourced labour, contracting out noncore functions to reduce labour costs, improve flexibility, and obtain expertise not available internally. Outsourcing occurs across many industries and business functions, including information technology, manufacturing, research and development, human resource and medical services (Mayer and Nickerson, 2005).

Two common methods of outsourcing are peripheral outsourcing and core outsourcing. The first type occurs when firms acquire less strategically relevant, peripheral activities from external suppliers. The second type occurs when firms acquire activities that are considered highly important to long-run success. What constitutes a core or peripheral activity is essentially a judgemental issue by each individual firm, based on what it considers as its core competency and the strategy it intends to pursue. Though it is
possible that some similarities may exist within the organization, there is considerable scope for variation among firms within the industry (Gilley and Rasheed, 2000).

All companies consider economic factors pivotal in the outsourcing decision process. “Cost reduction” or “cost saving” is the primary reason for outsourcing in most organizations. A wealth of literature suggests that most outsourcing deals are driven by a desire to reduce cost (Corbett, 1996).

### 2.3.1 Core Outsourcing

Executives need to look beyond the company’s products to the intellectual skills or management systems that actually create a sustainable competitive edge. Products, even those with valuable legal protection, can be too easily back-engineered, duplicated, or replaced by substitutes. Nor is a core outsourcing competency typically one of the traditional function such as production, engineering, sales or finance, around which organizations were formed in the past (Levy, 1995).

Firm performance may also be influenced by the intensity with which a firm outsources its non-core, strategically relevant activities. Several authors have noted that this “core sourcing” may lead to declining innovations (Kotabe, 1990; Teece, 1987) and eventual competition from suppliers (Bettis et al., 1992; Prahalad and Hamel, 1990; Quinn, 1992), resulting in reduced firm performance. In addition, the transfer of specialized knowledge necessary when firms outsource non-core activities may also place the firm’s future performance in jeopardy. Therefore, it is proposed that firms outsourcing activities very near their strategic core will achieve lower levels of performance relative to firms that retain tight control over these activities.

An increased focus on an organization’s core competencies is another important
benefit form of outsourcing. Outsourcing non core activities allows the firms to increase managerial attention and resource allocation to those tasks that it does best and rely on management teams in other organizations to oversee tasks at which the outsourcing firm is at a relative disadvantage (Prahalad and Hamel, 1990).

Core outsourcing techniques are great in their breadth. On the other hand, many firms choose to maintain internalization of most of their activities and therefore have relatively narrow outsourcing strategies. Such firms decide to outsource only a few activities while maintaining tight control over most others. In contrast, other firms choose to make a much broader approach to their outsourcing methods by farming-out many peripheral activities, and even some activities much closer to their core capabilities (Beaumont and Sohal, 2004).

2.3.2 Peripheral Outsourcing

Peripheral outsourcing has a positive effect on firm performance. By peeling off layers of peripheral tasks and shifting their production to highly focused, specialist organizations, firms can see enhanced performance (Bettis et al., 1992; D’Aveni and Ravenscraft, 1994; Kotabe, 1992; Lei and Hitt, 1995; Quinn, 1992). This performance improvement relative to non-outsourcing firms manifests itself in three ways. First, reducing peripheral activities allows firms to focus on those activities they do best. This heightened focus on core competencies may greatly enhance firm performance by allowing the firm to become more innovative and agile in its core domain.
Secondly, outsourcing peripheral activities may greatly improve the quality of those activities (Dess et al., 1995). Specialist organizations, by focusing their attention on a very narrow set of functions, perform the much more successfully than could the outsourcing firm, to which a given peripheral activity is only one of many (Quinn, 1992).

Finally, outsourcing peripheral activities to the lowest-cost suppliers may lead to incremental improvements in a firm’s overall cost position. Therefore, it is proposed that by pursuing intense peripheral outsourcing methods, firms can achieve higher levels of performance relative to firms that do not outsource their peripheral activities as indicated by figure 1 below.

**Figure 1**

**Relationship between peripheral outsourcing and core outsourcing to Firm performance**

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<th>Peripheral Outsourcing Intensity (+)</th>
<th>Core Outsourcing Intensity (-)</th>
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Strategy | Environmental dynamism

Firm performance

**Source:** Gilley and Rasheed (2000)
The relationship between outsourcing intensity and firm performance may improve cost position and greatly enhance their competitiveness relative to industry rivals, thereby leading to superior performance. This is clearly illustrated by figure 1 above. A firm’s business-level strategy moderates the relationship between outsourcing intensity and firm performance such that, for a cost leader, any positive effect of outsourcing on performance is strengthened (Gilley and Rasheed, 2000).

2.4 Challenges of Implementing Outsourcing Strategies

Despite the dramatic rise in outsourcing in recent years, few empirical investigations of the subject have been conducted. Previous work on outsourcing has been primarily theoretical in nature and has relied mostly on anecdotal evidence to support assertions. Furthermore the conclusions of these works are inconsistent. Many intuitively appealing arguments have been offered both for and against outsourcing as a means of achieving sustainable competitive advantage (Gilley and Rasheed, 2000).

Although there are a good number of reasons to outsource, a number of potential obstacles are also recognized. There is evidence that outsourcing does not reduce costs as expected in some cases (Beaumont and Sohal, 2004). Main obstacles and problem of outsourcing include: loss of control, loss of critical skills, inadequate capabilities of service providers, loss of flexibility, failure to realize hidden costs of contract, difficulty in obtaining organizational support, indecisiveness on which activities to outsource, inadequate cost and benefit analysis systems and fear of job loss (McIvor and Humphreys, 2000).
“Lack of capable service providers” is a major problem of outsourcing, which includes inability to provide effective transportation networks, poor transportation tools, old-designed warehousing facilities, lack of qualified staff, and lack of IT capability. The incapability of the service provider may include issues such as: less than expected service quality, failure in realizing expected cost reduction or capital investment reduction, hindrance to further outsourcing of activities (Mazziwi, 2002).

Service providers who form the major backbone of business process sourcing are faced with key challenges, ranging from; organizing and designing the work, facilitating employee transitions, managing performance, managing turnover and legal obligations (Lankford and Parsa, 1999).

Loss of control over the outsourced activity is also considered one of the most commonly cited inhibitors to outsourcing. Aligning employee behaviours with the organization’s objectives often is facilitated by a performance-management process. In the outsourcing environment, it is impractical to apply the traditional performance-management process (Mayer and Nickerson, 2003).

Pre- and post-outsourcing costs in areas like administration, and office expenses have no clear post-outsourcing measurements. Managing performance has the obstacles such as employee discretion in performance (customer service), assessment of employees working on the work, and career versus task-oriented training (managing turnover such as maintaining service continuity to meet contract obligations, and transition of former client employees to service provider are identified as obstacles of business process outsourcing (Quinn and Hilmer, 1994).
2.5 Drivers of Outsourcing Processes

While many drivers are unique to specific organizations and industries, there are some common key factors that motivate organizations or industries to make outsourcing decisions. These factors can broadly be categorized as economic, strategic, and environmental. By means of outsourcing, organizations can gain competitive advantage through cost reduction and improved responsiveness to changing business environment and market demand (Lau and Zhang, 2006).

All companies consider economic factors pivotal in the outsourcing decision process. “Cost reduction” or “cost saving” is the primary reason for outsourcing. “Capital investment reduction” is also the most prominent reason for outsourcing of companies, which is expected to reduce capital investment in transportation, warehousing, manufacturing information technology, and employees in order to release capital for core business and to improve return on assets. Reducing capital investment and cost is an important part of survival strategy, in order to enhance competitiveness and flexibility (Emblemton and Wright, 1998).

“To accelerate re-engineering benefit” is one of the strategic factors that influence the decisions of companies. Corbett (1998) view that re-engineering gives companies the opportunity to consider outsourcing as one of the tools that they can use in the new business process to improve company performance and reduce operational costs. Jennings (2002) suggests that organizations should outsource activities for which they do not have a critical strategic need or special capability, and focus their attention on core competence to increase customer value.
Environmental reason for outsourcing is “to facilitate market penetration” which is principally viewed as a global outsourcing that helps organizations to enter new markets quickly without heavy initial investments and get geographically closer to customers to enhance responsiveness to changing customer needs (Kakabadse and Kakabadse, 2000).
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research was conducted through a case study. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. This is advocated by Young (1960) and Kothari (2004) who both acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. It’s a method that drills down, rather than cast wide.

3.2 Data Collection

The researcher used an interview guide as primary data collection instrument. The interview guide consisted of open-ended questions aimed at obtaining information on operations being outsourced by KPLC and the challenges of Business process outsourcing. The interview guide was administered through personal interviews with the Managing Director, Chief Managers, Managers, Regional managers and Chief Officers of KPLC. An organisational structure indicating the departments and the number of managers in each of the departments at KPLC is indicated in Table 3.1. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and quantity of data compared to other methods because supplementary information can be collected in the course of the interview.
Table 3.1 Distribution of KPLC Managers by Departments

<table>
<thead>
<tr>
<th>Department</th>
<th>Number Of Managers</th>
<th>Target respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director department</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Information Technology and Telecommunication</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Human Resources Management</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Distribution</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Supplies, Stores and Transport</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Commercial Services</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Energy Transmission</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Planning Research &amp; Performance</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Regional Manager</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Chief Officers</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112</strong></td>
<td><strong>57</strong></td>
</tr>
</tbody>
</table>

**Source:** 2010 KPLC Human Resource Data.

3.3 Data Analysis

Data collected was qualitative and it was analyzed by content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of phenomena that comprise the object of study.
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data findings were on the challenges of business process outsourcing strategy at Kenya Power and Lightening Company Limited (KPLC). Although the study targeted 57 employees, only 42 were successfully interviewed which make a response rate of 74%.

Qualitative analysis technique was used in grouping the thematic contents of responses got from the interviews conducted on the KPLC employees. The responses on outsourcing were grouped per department so as to determine what functions are outsourced in each department and the challenges faced there to.

4.2 Responses

Although the study targeted 57 employees the response was got from 42 employees who represented all the departments at KPLC. Four interviewees came from Managing Director department, 5 interviewees came from Information Technology and Telecommunication department, 6 from Human Resources and Administration, 6 interviewees from Finance, 5 from Distribution, 3 from Stores, Supplies and Transport, 5 from Commercial Services, 2 from Planning, Research and Performance, 2 from Energy Transmission and 4 from Company Secretary Department.

The study also established that most of the interviewees had long work experience as they had worked at KPLC for at least 10 years; 19 out of 42 had worked for 10 to 14 years
while 17 had worked for over 14 years. The interviewees were therefore in a good position to provide the most reliable information owing to their work experience at KPLC.

4.3 The findings

The findings of the study were as follows:

4.3.1 Outsourced Services

The study sought to establish the business processes outsourced in each department from which it was established that each department outsources at least one process. In Managing Director Division Department processes outsourced are security services, alarm response (maintenance and repairs), auditing tools (specialized IT audits), specialized investigations (some fraud investigations), training, media services (media monitoring and filming services) and advertising and creative design.

In Planning Research and Performance Department processes outsourced are feasibility and other studies for power projects. The department also occasionally outsource printing and binding of documents when KPLC has heavy duty printing of documents. The interviewees also indicated that the department benefited from services outsourced by other divisions e.g. security awards and cleaners.

In Finance Department outsourced services are auditing of accounts, tax consultancy, revenue collection services (use of banks and mobile phone companies as collection agencies), Cash in transit security services and post office/postage services. The study
further found that in Information Technology and Telecommunication Department outsourced services are: maintenance services for network systems, upgrading services for major applications and servers (SAP upgrade and ICS system upgrades). Other interviewees reiterated that they do outsource design and surveying services (including consultancy services) for new communication systems e.g. SCADA System. Other mentioned outsourced services include initial upgrading of distribution systems and internet browsing and hosting services.

In Company Secretary Department services outsourced were found to be legal services, valuation, surveying and physical planning services, insurance risk services, printing of annual report and accounts and printing of dividend warrants. In Commercial Services Department services outsourced include debt collection on finalized accounts, advertising and production of promotions materials, retrofitting of meters from post paid to prepaid.

In Human Resources and Administration Department outsourced services include consultancy services on job evaluations, job interviews for senior staff and employee satisfaction surveys. Other outsourced services include provision of health care, cleaning services, courier services, training services, travel booking services and construction work in administration. In Distribution division, the outsourced services include surveying services, design services, wayleave acquisition services, consultancy services, construction services on turnkey projects, labour and transport contractor services and road cutting, trenching and reinstatements services.

In Energy transmission division the outsourced services include consultancy and construction of turnkey projects. Others include civil maintenance work for
transmission lines. In supplies, stores and transport division the operations outsourced are maintenance of vehicles, supply of fuel, valuation of asset for disposal, transport of materials and clearing and forwarding services.

The study inquired about what drove KPLC to outsource the business processes rather than having them undertaken as in-built processes. The study found that the driving factors are inadequate in-house capacity, cost reduction and skills gap. On skills gap some said “....we obtain access to world stars capability especially when we outsource to the auditing firms, the need to free resources to other purposes, the need to obtain resources not available internally”. For some, the reason for outsourcing were cost of in-built process which were high and hence outsourced to reduce costs, considerations of efficiency in terms of special skills required and economy of time.

The interviewees were asked to list the benefits KPLC derive from outsourcing to which they listed like having benefitted from skills such as fraud investigation, cost reduction, economies of scale, multiplicity of capacity, know-how (specialization), focus on capacity building of core services, improved customer service due efficiency in service delivery resulting from the outsourced processes.

4.3.2 Challenges of Outsourcing

The study sought to establish the challenges that KPLC face in business process outsourcing. In Managing Director division, the challenges given by interviewees include inadequate quality assurance and control which affect service delivery, court litigation during tendering, conflict of interest, lack of control of company confidential information
due to opening up to outsourced service providers. In planning research and performance the challenges given are delay in service delivery by outsourced firms, long tendering processes and inadequate supervision of consultants leading to poor service.

In Finance division the challenges includes confidential risk of financial information, delay in collection remittances by agents, frauds, low quality of information( due to errors), delayed resolution of customers queries not linked to company online customer system and corruption challenge in tendering. In information technology and Telecommunication the interviewees gave the challenges as inadequate supervision capacity, integrity of outsourced firms, long procuring process, sub standard service, exposure of confidential information to outsiders, high cost of outsourced IT services and language conflict especially if the consultants are not from English speaking countries.

The challenges of business process outsourcing in company secretary division include, high cost of legal services, inadequate monitoring of advocates due to large numbers of case in different courts, quality of service, delay in insurance claim settlement and negative perception of insurance services among staff and general public. In Human Resources and administration, the challenges given by interviewees are legal challenge, inadequate supervision of outsourced firms which compromise on quality, possibility of fraud due to collusion, high cost of outsourcing professional services, long procurement process and problem of subcontracting by the some of the outsourced firms. In commercial services business process outsourcing challenges include quality compromise, integrity of outsourced firms, staff resistance due to fear of loss of jobs, poor customer service and increased opportunities of frauds.
In distribution division the challenges were found to be negative reception by unionisable staff, frauds, corruption, litigation and negative competition of contracts, inadequate supervision leading to poor quality service, substandard works and poor performance by some contractors. In Supplies Stores and Transport division, the challenges involve fraud and collusion, delays in receiving clearing documents to facilitate prompt clearing of goods and inadequate monitoring of some outsourced service contractors. In Energy Transmission division the challenges are long procurement process, subcontracting by outsourced firms leading to poor quality, inadequate supervision, delay in service delivery leading to delay in project completion time and legal challenges due to contractor disputes.

The study inquired about how KPLC deal with outsourcing challenges as a mitigating mechanism of which the study established that KPLC has taken in-built quality control measures, strict timeliness/deadlines, penalties for non-performance, strict contracting measures/procedure which ensures that it gets the right contract, confidentiality, outlining quality of services it envisions to get, having service contracts that spell out rules and regulations and other documentation where all briefs are given in writing and all processes outsources must be laid down through proper legal contacting to ensure adherence.

The study asked the interviewees to rank the challenges they had earlier on identified, and the study found the following challenges were ranked at top for most of the interviewees; viz, management of quality, time delivery, non-performance, court litigations during tendering that delay services, hostility from employees, fraud.
and collusion, inadequate supervision, and communication challenges with the contracted firm.

The study inquired about what comments the interviewees had on the business process outsourcing. The interviewees’ sentiments were that outsourcing as a business strategy enhances firm performance and mitigates the company against labour unrest risks. They also stated that business process outsourcing is necessary for efficient and effective service delivery if well managed and some indicated that it is the way forward for the organization.

4.4 Discussion

The findings of the study confirm that the outsourced services in KPLC conform to the outsourced services highlighted in the theoretical and empirical literature. The company has mainly outsourced non-core services as advocated in the concepts of business process outsourcing. Similarly the challenges faced by KPLC like inadequate quality assurance, loss of control, inadequate capability of service providers and legal obligations among others, are related to the outsourcing challenges highlighted in empirical literature (McIvor and Humphreys, 2000).
CHAPTER FIVE: SUMMARY OF THE FINDINGS CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the summary of the findings, conclusions and recommendations drawn from various interviews aimed at identifying the challenges of the business process outsourcing strategy at KPLC.

5.1 Summary of Findings

As can be seen in chapter 4, the findings of the study are as follows.

5.1.1 Outsourced Services

The following were the outsourced services by KPLC; security services, cleaning services, specialized IT audits, specialized investigations, feasibility studies for power projects, external audit, tax consultancy, revenue collection services, cash in transit security services, maintenance services for network systems, upgrading services for major applications and servers, trainings, media services, consultancy services, insurance services, legal services, debt collection, surveying and design services, wayleave acquisition services, construction services on turnkey projects, labour and transport contractor services, maintenance of vehicles, valuation of asset services, clearing and forwarding services, provision of health care and others.
5.1.2 Challenges of Business Process Outsourcing.

The challenges of business process outsourcing were found to be inadequate quality control mechanism, timeliness of delivery, loss of confidentiality, resistance by unionisable staff, lack of close supervision, long tendering processes and procedures, court litigations, poor customer service, increased frauds, high cost of outsourcing IT services, problem of sub contracting of the outsourced firms and others.

The study found out that the company deals with the above challenges as follows; adoption of inbuilt control measures, penalties for non performance, strict time guidelines for service delivery, insertion of confidentiality clause in the contract and strict vetting of outsourced firms among other measures.

5.2 Conclusion

The conclusion of the study is that KPLC, in outsourcing its services faces various challenges. The company is however able to deal with those challenges through establishing strict quality control measures, establishing service delivery standards, inserting confidentiality clause in the contract to protect loss of confidential information and imposing penalties for non-performers.

5.3 Recommendations

The study recommends that KPLC should take the following measures to deal with business process outsourcing challenges. KPLC should enhance in-built quality control
mechanism and closely monitor the outsourced operations to improve on quality and service delivery. Stiff penalties for non-performance should be imposed to those firms that deliver substandard services especially in construction of lines. Contracting procedures should be enhanced so as to ensure that the company gets the most competitive service and product from the outsourced firms. The company should ensure that confidentiality clause is included in all the contracts to protect the company from loss of control of confidential information. To fight frauds and corruption, errant outsourced contractors should be debarred from doing business with the company. The company should also enhance performance review meetings with the outsourced firms. This will ensure that there is close monitoring and supervision of the outsourced operations. The company should set clear guidelines and standards that regulate the outsourced business operations and ensure that the all the parties involved are aware of the standard requirements and penalties involved.

5.4 Recommendations for Further Research

This study recommends further research be conducted to determine the perception of KPLC customers to outsourced services like construction of connection lines for customers and wayleave acquisition by private contractors. Further research can also be carried out to determine KPLC employees’ perception to outsourced service. Another area of research is to determine how Information Technology has enhanced the efficiency and effectiveness of monitoring outsourced services in KPLC.
REFERENCES


APPENDICES

Appendix I: Introduction Letter

THE UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

DATE: 9.1.2010

TO WHOM IT MAY CONCERN

The bearer of this letter, John K. Kinjah,
Registration No: D61711812009,

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

[Signature]

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

P.O. Box 30197
Nairobi, Kenya
Appendix II: Letter of Authority to collect data from KPLC

TO WHOM IT MAY CONCERN

RESEARCH APPROVAL – JOHN K. KINYUA

Reference is made to the subject matter mentioned above.

Kindly allow John Kinyua, who is doing his MBA at the University of Nairobi, to carry out a research project in the Company on “Challenges of Business Process Outsourcing”.

This authority not withstanding discretion must be exercised in the use of company information including business strategies and policy documents.

The Research Project should also not disrupt normal working hours and Company’s flow of work.

Yours faithfully,
For: KENYA POWER & LIGHTING CO. LTD.

KURIA KIBIRU
HUMAN RESOURCE DEVELOPMENT MANAGER
Appendix III: Interview Guide

CHALLENGES OF BUSINESS PROCESS OUTSOURCING STRATEGY AT KPLC

SECTION A: Demographics Information:

1. Name of the respondent (optional) .................................................................

2. Which department are you in?
   a) Managing Director Division [ ]
   b) Information Technology and Telecommunication [ ]
   c) Human Resources Management [ ]
   d) Finance [ ]
   e) Distribution [ ]
   f) Supplies, Stores and Transport [ ]
   g) Commercial Services [ ]
   h) Energy Transmission [ ]
   i) Planning Research & Performance [ ]
   j) Company Secretary [ ]

3. How long have you been in the organization?
   a) Less than 5 years [ ]
   b) 5 to 9 years [ ]
   c) 10 to 14 years [ ]
   d) 15 years and above [ ]

4. Does your department outsource any business processes? Which business process do you outsource?

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   ........................................................................................................................................
   ........................................................................................................................................

43
5. What drove you to outsource the business processes rather than having your own in-built processes?

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…………………………………………………………………………………………
…………………………………………………………………………………………

What benefit does your organization derive from outsourcing?

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6. What challenges do you face in your Business process outsourcing?

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7. How do you deal with those challenges?

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8. Rank the challenges identified above in terms of their difficulty.

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9. Any other comment

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…………………………………………………………………………………………

THANK YOUR FOR YOUR COOPERATION