

**A SURVEY OF DETERMINANTS OF GROWTH OF BUSINESS PROCESS
OUTSOURCING IN KENYA**

BY

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DECLARATION

This research Project is my original work and has never been presented for an academic award in any other institution of higher learning.

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D61/P/7111/04

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

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DEDICATION

To my beloved parents;

Father Njuguna Winston

And

Mother Njuguna Pauline

ACKNOWLEDGEMENTS

Firstly I thank God for giving me good health and guiding me through the entire course and the sufficient grace he accorded to me in abundance.

Special thanks go to my Supervisor Mr. Barasa, J.L. who dedicated a lot of his time and resources to read my work from proposal, research process up to the final research document. I am truly very grateful for giving me invaluable guidance, support, patience and encouragement.

To my siblings, Elizabeth Njuguna, Naomi Njuguna, and Nancy Njuguna all of whom have supported me in my entire academic walk with a lot of encouragement. And to my nephews Winston N. Njuguna and Andrew Nderitu, and Nieces Poulette Wambui and Angela Wanjiku, may this inspire you to excel.

My sincere thanks to all those in the BPO Industry who responded to my questionnaire and to my colleagues in the MBA program for their advice and suggestions. Further thanks to my family members and friends who supported and cheered me on.

God bless you all.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Kenya, despite its strategic position, its advanced technology and its resources in terms of trained workforce with very good anglicized accents, has not been able to fully attract the big names in the outsourcing world. While this industry is one of the earmarked ones in the Kenya government vision 2030 paper as one of the greatest creators of jobs, wealth as well as kick starting the economy, it has not kicked off very well, because other outsourcing destinations such as India, Philippines, South Africa, and Ghana have more favorable terms for the outsourcers mainly due to the support offered by their government in terms of marketing and tax incentives (Altinkemer et al., 2005).

The BPO sector in Kenya has constantly urged the government to come up with friendly tax structure that will make them competitive in the region. The current tax system is deemed to be hostile to the sector in comparison to other countries, thus foreign outsourcing companies thrive. The industry has the potential of employing tens of thousands of qualified persons if the conditions are favorable. Some of the incentives offered to other outsourcing destinations include: subsidized infrastructure, zero corporate tax status, 30% personal income tax rebate to employees working in the BPO sector, establishment of BPO parks, free zones, 100% exemptions on customs duty for equipment and goods imported for research and development and tax incentives for purchases (Machoka, 2008).

In the early 1980s, “outsourcing” typically referred to firms’ sub-contracting of manufactured physical inputs from outside the firm or the country rather than making them inside. Outsourcing or sub-contracting was therefore associated with relocation of low-skill labor-intensive industrial operations to low-wage countries. The globalizing world of the recent decades has been going through a stage with increased forces of

market deregulation and rapid technological advances. In order to deal with these competitive pressures, firms are resorting to new organizational forms and activities. Apart from reorganizing through mergers and acquisitions, joint ventures, and strategic alliances, they are also increasingly adopting business operations outsourcing through external suppliers (domestic or foreign) or foreign affiliates. “More recent outsourcing practices refer to,” what Stefanova (2006, p.7) argues, “transfer of intermediate products and processes to relatively low-wage labor-abundant countries by using technology-intensive production process typical of the source country.” Thus, recent outsourcing practices apply mainly to intermediate products, business process operations, and product-related services. “Outsourcing” is therefore distinguished from export of capital measured as outward foreign direct investment (FDI), or imports of low-skill labour-intensive finished products, although it is related to both. Generally speaking, “outsourcing” goes by a different meaning in recent years and is predominantly focused on a segment of the growing international trade in services. This segment consists of, what Bhagwati (2004) earlier called, “long-distance” services, in the sense that transactions do not require the immediacy of geographical proximity.

There has been a growth in the amount of outsourcing in general and business process outsourcing (BPO) in particular. BPO is a widely accepted management practice that consists of transferring one or more of the firm's business processes, such as demand management, enterprise services, operations, and supply management to an external provider, who, in return, owns, provides and manages the processes according to some predefined metrics (Mehta *et al.*, 2006). Thus, BPO involves management responsibility for a complete business process or activity. Information system (IS) researchers often treat BPO as the extension of information technology outsourcing (ITO) (Lacity *et al.*, 2004). However, this ITO-oriented conceptualization tends to emphasize the role of IT, and pays less attention to the broader process and functions that are outsourced together with those supporting IT operations. The key difference between them is that BPO is focused constantly updating and improving business process, human resources, and technology, while ITO is vendor driven and aims to contain and reduce IT expenditure (Yang *et al.*, 2007).

IT/IS-based BPO has become a widespread world-wide phenomenon both in the private and public sectors and has experienced a considerable growth in more recent years. The BPO market of IT services, which was worth \$140 billion in 2002, reached an estimated market size of approximately \$174 billion in 2007, International Data Corporation – IDC (2007). In addition, according to IDC, worldwide spending on BPO services totaled US\$712 billion in 2001 (Yang *et al.*, 2007); and it projects that worldwide spending in the BPO market will increase to US\$1.24 trillion by the end of 2007 (IDC, 2007). This number is based on the IDC's forecast of 9 business functions that include human resources, procurement, finance and accounting, customer care, logistics, engineering and R&D, sales and marketing, facility operations and management, and training. It can also be observed that these business functions are spreading geographically, from North America, the UK and Australia to Western Europe, South America and some countries in Southeast Asia, amongst others Japan and some African developing countries (Gonzalez *et al.*, 2005). Moreover, these markets are predicted to grow rapidly in the near future.

Companies in demand BPO must make the right decisions about which BPO services to outsource and which services to retain in-house, precisely take into account the potential benefits and risks involved in BPO and calculate the long-term economic consequences they get from BPO. A decision to BPO may be driven by the need to reduce costs, improve flexibility (FLX) to changing market conditions, focus on core competencies (FCC), access to skills and resources (ASR), improve service quality (SQ), or to achieve a combination of these benefits (Kern *et al.*, 2002). Thus, suitable BPO is strategically vital to companies that wish to remain competitive. Practitioners have realized this importance by spending money, time, and resources on these supporting management practices. However, many firms have failed because of risks including loss of organizational learning, information security and privacy (ISP) problems in BPO arrangements, declining rate of innovation (Shi, 2007), motivation loss of remaining employees, low-performance rates, high-transaction costs, and other hidden costs (HC) that may significantly exceed initial capital estimates.

In 2002, Mugure a founder of Precise International started offering BPO services in Nairobi, Kenya, in the area of data captioning, to international clients. At the time, hardly

anyone had any incline nor understood what BPO was. Two years later, the first call centre (Kencall) offering services to international clients, was started. It took just under year for a second call centre, smaller in scale, to also start (Machoka, 2008). Business Process Outsourcing has for a long time been billed as a possible growth industry in Kenya. The landing of several submarine fiber optic cables connecting the Kenyan coast to the rest of the world were seen as heralding the age of BPO in Kenya. The Ministry of ICT and the ICT board on many occasions pushed BPO as a great opportunity for the country.

For many developing countries outsourcing is the ultimate get-rich-quick scheme. The lure of a half trillion dollar market, 85% of which is unaddressed, is irresistible. The industry has grown exponentially in the last few years, by a massive 65% between 2005 and 2009. At \$220 billion, the Business Process Outsourcing and Off shoring sector takes up nearly half of the total addressable market for industry, less than 11% of which has been exploited (Machoka, 2008).

Kenya has announced her intention to stake a claim to a piece of this pie. BPO has been identified as one of the six pillars of economic growth underpinning Vision 2030, the country's strategy to achieve middle-income status within two decades. The vision calls for Kenya to quickly become the top BPO destination in Africa. The plan is to create at least 7,500 direct BPO jobs and grow the industry's GDP contribution from almost nothing to KShs.10 billion, by 2012. However, a study by the international consulting firm McKinsey and Company indicates that the vision is not sufficiently ambitious. According to the report *seizing the Prize –Driving BPO Sector Growth in Kenya*, the sector has the potential to generate Ksh 45 billion and 20,000 direct jobs by 2014. It will require a high degree of focus, effort and haste to realize the benefits. It identifies the country's competitive strengths and weaknesses, identifies a strategic direction and lays out a series of recommendations covering strategy, marketing, training, funding and the country's business environment, which must be implemented sequentially before the end of this year (Machoka, 2008).

1.2 Statement of the problem

Business process outsourcing companies are petitioning the Kenyan government to come up with a friendly tax structure that will make them competitive in the region as high taxes have been identified as one of the main hindrances of BPO growth. The firms feel that the country's tax regime is so hostile to the sector that it has created a breeding ground for foreign outsourcing companies to thrive. As a result, they risk losing the expanding outsourcing market to international firms that enjoy an assortment of tax incentives extended to them by their countries. The sector has already sent a taxation structure proposal to the government, asking it to come up with a relatively conducive tax system that will create a level playing field with its international counterparts. The appeal comes a few months after a study funded by the Canadian International Development Research Council showed that Kenya is yet to catch up with popular BPO destinations such as Mauritius, South Africa, Ghana and India (Currie, 2001).

The study noted that South Africa, one of the leading BPO destinations in the world, does not have tax incentives but has comprehensive investment, training and funding, while Mauritius had abolished taxes except for a 15 per cent corporate tax. On the other hand, China offers subsidized world class infrastructure, tax incentives for purchases, zero corporate tax status and a 30 per cent personal income tax rebate to employees working in units in the special parks set up by the government (Conklin, 2005).

BPO sector players have argued that Kenya should formulate a tax scheme that will expose BPOs to a corporate tax relief of up to five years holiday and a labor tax relief holiday to encourage youth to join BPOs and make it their career succession plan. Also to be factored in the radical tax shift is the pay-as-you-earn relief, BPO training subsidies as well as the formation of a data security Act. There is a danger that Kenyan BPOs may opt to relocate to tax-friendly countries such as Philippines, unless the government takes drastic steps to address its outsourcing environment. This in turn could reflect in loss of jobs (Conklin, 2005).

Several related studies have been done Machoka (2008), for instance, did a research study on business process outsourcing strategy in the audiovisual industry in Kenya.

WANYANDE (2006) did a study on application of Ansoff's growth strategies by internet service providers in Kenya. Kamanda (2006) studied factors influencing the regional growth strategy at KCB. Muinde (2006) did a study on the effectiveness of investing in the private sector for sustainable growth and development in Africa. Mwaka (2006) studied financial structure and growth of small and micro enterprises in Nairobi. There is no known study that has been done in Kenya on determinants of growth for BPOs. It is this knowledge gap that the researcher was motivated to bridge so that various organizations may gain knowledge of the driving forces of BPO hence they will know how to adopt them. By this information, organizations will be able to make informed decisions in outsourcing their services thus enhancing in their productivity and efficiency.

1.3 Objectives of the study

To explore the determinants of growth of business process outsourcing in Kenya

1.4 Importance of the study

To potential investors, the findings of this study were expected to provide valuable insight to all those interested in entering and investing in the business outsourcing sector. To the Government of Kenya, the study was expected to be valuable in that it was to provide the general information on what it can do to ensure continuous growth of the business outsourcing sector in Kenya. As policy makers, the government would find this study important in formulating policies on tax reduction for the business outsourcing sector.

To academicians and researchers, the study will be a source of reference material for future researchers on other related topics; it will also help other academicians who undertake the same topic in their studies. The study will also highlight other important relationships that require further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines business process outsourcing (BPO). It starts with an overview of BPO sector and move on to its classification, benefits and challenges focusing on tax system. The chapter then outlines the theoretical framework of the study. The chapter finally examines BPO concept in the context of Kenya.

2.2 Theoretical framework

2.2.1 Total cost economics (TCE) theory

Researchers in management have studied inter-organizational governance mechanism from TCE standpoint. When firms engage in inter-organizational collaboration, partners protect their investment from the opportunistic behaviors of the other by specifying all the contingencies on the contracts (Yang *et al.*, 2007). However, bounded rationality limits partners to anticipate all the contingencies, which results in the incomplete contract. The incomplete contract is complemented by hierarchy mechanism. As appropriation concern increases, the use of hierarchy controls increase.

TCE argues that a transaction between inter-organization be governed by three governance structures: market, hierarchy or hybrid structures. Assuming production costs are the same, the choice of the governance structure is determined by comparing the transaction costs of the alternatives. In TCE, transaction costs of *ex ante* and *ex post* types are distinguished: the first being associated with writing and negotiating contracts and the second being related to monitoring, adapting, and enforcing contracts. Asset specificity and environmental uncertainty are one of the factors determining the transaction costs (Carmel, Gao and Zhang, 2008).

A stream of IS outsourcing research has focused on TCE and viewed the IS sourcing decision as a rational decision made by firms based on transaction costs. They argue that as transaction costs increases, the extent of substitution by vendors decrease and the need for internalization increases (Weerakkod *et al.*, 2003). As asset specificity increases in the exchange transactions, the client are more exposed to possibility of opportunistic expropriation (no unique needs of client are met, thereby reducing the quality and service to any single client) by the service provider, which leads to more internal services. High uncertainty in technical change and the corresponding risks of technical obsolescence, the need for outsourcing increases.

While TCE views the choice of governance structure is determined by concerns of appropriation, organizational scholars (theory) argues that the governance structure is also influenced by concerns about coordination costs in managing inter-organizational activities. Imagine that an alliance is formed between two firms that have complete confidence in each other and face no appropriation concerns whatsoever (Udo, 2000). Despite this frictionless situation, they must still coordinate the division of labor and the interface activities and products between them.

2.2.2 Coordination Theory

According to Chen (2000) in intra-firm settings control is used to create conditions that motivate the organization to achieve desirable or predetermined outcomes. Translated to an inter-organizational setting the primary purpose of control can be described as creating the conditions that motivate the partners in inter-organizational relationships (IOR) to achieve desirable or predetermined outcomes. According to this definition, firms enter IOR by cooperatively performing value-creating activities. When adopting a value-creation perspective on IORs, TCE's value-appropriation concerns are only a subset of organizational issues in IORs. To create transactional value, inter-organizational relationship partners pool resources, determine tasks to be performed and decide on a division of labor. The resulting interdependence between the subtasks the partners agree to perform subsequently needs to be coordinated across organizational boundaries.

The extent of the anticipated interdependence between partners at the time they form an alliance can vary substantially and depends on the tasks included and the likely division of labor in the partnership, all of which are a function of the strategic rationale for the alliance. At one extreme, an alliance may have a simple division of labor with minimal ongoing adjustments that require each partner to share information about the progress of its initiatives for the partnership to achieve strategic goals (Tsaur *et al.*, 2002). At the other extreme, the likely interdependence can be extensive, resulting from the anticipation of a complex and overlapping division of labor that will entail continuing mutual adjustments between partners and require each partner to link specific activities with other partners closely and regularly.

The types of interdependencies among individual activities are characterized as follows: pooled, sequential and reciprocal interdependency. In inter-organizational relationships characterized by pooled interdependence, coordination requirements are low as partners have little need for any ordering of activities. In a situation of sequential interdependence, for instance a typical buyer-supplier relationship, resources are transferred from one partner to another and coordination is characterized by ensuring an appropriate fit between the points of contact. Inter-organization relationships characterized by reciprocal interdependence, in which partners' activities are necessary inputs for each other's activities generally ask for fit between wider ranges of partner operations and require more complex coordination mechanisms for communication, joint decision making and ongoing adjustment to each other's situation.

The higher the anticipated interdependence between alliance partners, the greater the magnitude of expected coordination costs. Thus, the choice of governance structure must consider not only concerns of appropriation but also concerns about coordination costs resulting from the extent of interdependence expected by the partners. Gulati and Singh (2002) stress the importance of using control mechanisms for managing task interdependence by arguing that: concerns about anticipated coordination costs are particularly salient in alliances, which can entail significant coordination of activities between partners and yet have to be managed without the benefit of the structure and systems available in traditional hierarchies.

The more interdependence between the tasks, the more information processing needs there are. Alliances with more hierarchical controls are able to provide greater coordination and information processing capabilities than those with fewer controls. Sobrero and Schrader (2002) argue that while the contractual structuring is used to provide the institution for aligning the partner's incentives, the procedural structuring concerns mainly how firms actually align their joint processes through organizational mechanisms.

2.2.3 Social Control Theory

The problem of organizational decision is to discover that balance of socialization and formal control (behavior program and outcome measurement), which most efficiently permits a particular organization to achieve cooperation among its members. The purpose of using the social control mechanism is to improve the goal congruity among organizational members and thus compensate the uncertainty and ambiguity of their performance (Triantaphyllou, 2000). As in the organizational research, the balance of social and formal control has been a major concern in BPO research.

In BPO, trust is the principal mode of social control and is associated with goodwill and capabilities of the partners. Goodwill trust is defined as the expectation that another will perform in the interests of the relationship, even if it is not in the other's interest to do so. Capability trust relates to expectations about another's competencies to perform a task satisfactorily. Dekker (2003) argues that trust is the low-cost solution therefore it substitutes formal controls whenever a sufficient level of formal control is realized for safeguarding the transaction. Thus, increasing trust in and knowledge of a partner can result in either a reduced need for formal coordination or in improved coordination. He also argues that excessive use of formal control over a certain threshold would risk damaging the quality of relationship.

Particularly in IT outsourcing, trust based partnership is considered to be equally important to formal aspects of relationship. The partnership model posits that trust based informal relationship is a determining factor in IT outsourcing success. In the case where

outsourced IS application has high asset specificity and strategic importance to the firm, mutual relationships play more important role. This is the case where TCE theories cannot explain the rationale of the outsourcing decision (Shi, 2007).

2.2.4 Agency Theory

An agency relationship is defined through an implicit or explicit contract in which one or more persons (the principals) engage another person (the agent) to take actions on their behalf. Agency relationship exists in all cooperative efforts. In this relationship, one party is designated as the agents who act for the other called as principle. The agency problem is associated with determining the structure of the control mechanism for agents. Task characteristics, reward structure, ISs are variables to determine the structure of the control mechanism. If task is relatively programmed, behavior control is appropriate. If the task is less programmed and outputs are readily measured, then outcome-based control is appropriate. Organizations can compensate for decreased task programmability and outcome measurability by social control or by increasing ISs (Sen *et al.*, 2006).

Under conditions of ambiguity and of uncertainty on performance, measurement with reliability and with precision is not possible. A control system based on such measurements is likely to systematically reward a narrow range of maladaptive behavior, leading ultimately to organizational decline. Under such conditions, ISs and social control discussed in the previous section can be used to compensate the uncertainty.

For the management of IOR, ISs play an important role. Virtual company is made possible due to the advance in IOS. In the earlier study on BPO, IS and associated organizational process are important governance mechanisms to ensure BPO success. In this research, we take the view that IOS is a part of an organizational governance system. We explore the design principle of governance mechanism in IOS (Parkan, 2005).

2.3 An overview of Business Process Outsourcing

There has been a growth in the amount of outsourcing in general and business process outsourcing (BPO) in particular. BPO is a widely accepted management practice that

consists of transferring one or more of the firm's business processes, such as demand management, enterprise services, operations, and supply management to an external provider, who, in return, owns, provides and manages the processes according to some predefined metrics (Loh and Venkatraman, 1992; Mehta *et al.*, 2006). Thus, BPO involves management responsibility for a complete business process or activity (Sen and Shiel, 2006).

BPO are often treated by the Information system (IS) researchers as the extension of information technology outsourcing (ITO) (Lacity *et al.*, 2004). However, this ITO-oriented conceptualization tends to emphasize the role of IT, and pays less attention to the broader process and functions that are outsourced together with those supporting IT operations. The key difference between them is that BPO is focused constantly updating and improving business process, human resources, and technology, while ITO is vendor driven and aims to contain and reduce IT expenditure (Yang *et al.*, 2007).

IT/IS-based BPO has become a widespread world-wide phenomenon both in the private and public sectors and has experienced a considerable growth in more recent years (Buck-Lew, 1992; Currie, 1996). The BPO market of IT services, which was worth \$140 billion in 2002, reached an estimated market size of approximately \$174 billion in 2007, International Data Corporation – IDC (2007). In addition, according to IDC, worldwide spending on BPO services totaled US\$712 billion in 2001 (Yang *et al.*, 2007); and it projects that worldwide spending in the BPO market will increase to US\$1.24 trillion by the end of 2007 (IDC, 2007). This number is based on the IDC's forecast of 9 business functions that include human resources, procurement, finance and accounting, customer care, logistics, engineering and R&D, sales and marketing, facility operations and management, and training. It can also be observed that these business functions are spreading geographically, from North America, the UK and Australia to Western Europe, South America and some countries in Southeast Asia, amongst others Japan (Gonzalez *et al.*, 2005). Moreover, these markets are predicted to grow rapidly in the near future.

Companies in demand BPO must make the right decisions about which BPO services to outsource and which services to retain in-house, precisely take into account the potential

benefits and risks involved in BPO and calculate the long-term economic consequences they get from BPO. A decision to outsource may be driven by the need to reduce costs (Loh and Venkatraman, 1992; Altinkemer *et al.*, 1994; Udo, 2000), improve flexibility (FLX) to changing market conditions (D'Aveni and Ravenscraft, 1994), focus on core competencies (FCC) (Grover *et al.*, 1994; Weerakkody *et al.*, 2003), access to skills and resources (ASR) (Quinn and Hilmer, 1994), improve service quality (SQ) (McFarlan and Nolan, 1995), or to achieve a combination of these benefits (Kern *et al.*, 2002). Thus, suitable BPO is strategically vital to companies that wish to remain competitive. Practitioners have realized this importance by spending money, time, and resources on these supporting management practices. However, many other firms have failed because of risks include loss of organizational learning (Duening, 2005), information security and privacy (ISP) problems in BPO arrangements (Ketler and Walstrom, 1993), declining rate of innovation (Shi, 2007), motivation loss of remaining employees (Mahnke *et al.*, 2005), low-performance rates, high-transaction costs, and other hidden costs (HC) (Willcocks *et al.*, 1995) that may significantly exceed initial capital estimates.

2.4 Concept of BPO

A decade ago, the concept of business process outsourcing took off in a big way, supported by the promise that it will result in substantial cost savings and increased efficiency. The fact that the BPO concept has been largely successful in living up to its promises becomes quite evident when you look at the large number of multinational companies that have turned to business process outsourcing and are deriving the benefits associated with it. Using the BPO concept, businesses were able to make the best possible use of available resources, something that is necessary for achieving competencies in the marketplace. By outsourcing their noncore business processes to outsourcing companies, businesses were able to concentrate more on their core areas, which eventually resulted in better business competence (Mouhalis, 2006).

From humble beginnings, business process outsourcing has now evolved into a completely new industry. The BPO industry today provides a wide range of outsourcing services that include everything from back office operations to complex middle office

functions such as billing & invoicing, sales & purchase, human resource management, payroll processing, tax management, legal services, accounting services, content management, and many others (Mehta, 2006). Considering the phenomenal growth that the BPO industry has witnessed in recent years, it is quite natural to think that it will continue to deliver the same performance in the coming years as well. However, this will not be as easy as it sounds because just like any other industry, the BPO industry also cannot remain untouched by cyclical ups and downs brought about by market forces.

However, it would be still too early to sound the death knell for the BPO industry because facing up to the challenges is not something new for business process outsourcing companies. Over the years, BPO companies have successfully overcome many challenges such as high attrition rates, confidentiality and privacy issues, and competition. This time too, they have no plans to call it quits under any circumstances. Concerned about the increasing customer backlash and falling profit margins, the BPO industry is seeking new systems and technologies that would help retain its competitive edge (Mahnke, 2005).

Consistent efforts on this front seem to be paying off for outsourcing companies. This is evident with the conception of a completely new system named BPO. It is anticipated that BPO will change the fortunes of the BPO industry by optimizing existing processes through the use of the most advanced Information technology and Telecommunication systems (Lacity, 2004).

BPO is more about quality rather than just cost savings and this is why experts predict that it will help maximize customer satisfaction, which is the need of the hour for the BPO industry. This white paper will discuss the compatibility of BPO with the existing market conditions, especially related to the outsourcing domain. It will also shed light on some of the basic concepts and methodologies used in BPO and show how exactly they will benefit the BPO industry.

2.4.1 Benefits of BPO to the outsourcing industry

2.4.1.1 Increasing focus on quality and customer needs

BPO lays stress on quality of deliverables and customer satisfaction through the use of multichannel communication systems and fully automated customer interaction hubs. These advanced systems are connected directly to an online database, something that allows customer care and support executives to access background information about customers, their tastes and preferences. This helps in reducing turnaround time since customers do not have to provide all the details every time they dial a customer support number. Providing the best quality services to customers then becomes a lot easier for outsourcing companies.

2.4.1.2 Laying stress on automation for optimizing work processes

Earlier, incoming calls were simply rerouted to the next available interaction hub. This often created problems because different customers had different needs and not all personnel manning the hubs had the same skills and talents. With BPO services have become a lot better since automated systems have been put in place that use inbuilt logic to reroute incoming calls to the most appropriate customer care and support hub. This way, customers get the desired service the very first time and do not have to wait for annoying call transfers.

2.4.1.3 Complying with SLAs and other mandatory requirements

BPO has made it easier for outsourcing companies to comply with stringent Customer Service Level Agreements through the use of advanced technological systems that monitor each and every interaction. Based on the recorded data, BPO companies can then easily carry out quality and time efficiency audits to ensure those SLAs and other mandatory requirements are being met in the desired manner.

2.4.1.4 Enabling cross selling and up selling capabilities

Using BPO, outsourcing companies are able to provide value added services such as cross selling and up selling to existing customers without compromising the quality of

customer care and support services. BPO companies can thus become the next profit centers of multinational companies who regularly outsource their noncore jobs. The primary objectives will still remain the same, i.e. helping resolve problems and complaints, but what is also true is that there will be no let up in efforts to cross sell and up sell, especially if opportunities exist for doing so. BPO will make this possible by reducing customer support turnaround time. The time saved can then be used for creating opportunities for cross selling and up selling. There won't be any problems from the customer's end because it's highly unlikely that a satisfied customer will mind spending some time listening to special deals offered by the same company. This will definitely help because it a proven fact that a support oriented selling & marketing initiative almost always fares better than a standalone selling & marketing initiative. A support oriented selling drive helps build trust, something that's necessary for converting marketing calls into actual sales.

2.4.1.5 Enabling and promoting self service practices

The concept of self services practices is not new, but since the required technological infrastructure was not as developed as it is now, it was not used on a wide scale. However, things are changing with BPO as can be seen from the widespread use of systems promoting self help practices such as Interactive Voice Response (IVR) and Interactive Online Databases. These systems are based on the premise that the majority of customer queries and complaints relate to simple problems and issues that can easily be resolved without the assistance of an expert. These systems help by reducing the load on customer interaction hubs, thereby saving precious time and effort, which can then be used for resolving the more complex of problems and issues of customers. Repetitive tasks also get easily eliminated through self service systems, something that reduces the generalized monotony experienced by most professionals working for outsourcing companies. This ultimately boosts the morale and motivation levels of employees, necessary for having the right attitude while resolving customer queries and complaints.

2.4.1.6 Conceptualizing and developing proactive systems

BPO aims at achieving a utilization capacity of 100 percent by eliminating potential disruptions before they actually occur. This is done through proactive systems that have the ability to detect potential disruptions in services and make this information available to the management. Since there will be no let up in services, it will become easier for outsourcing companies to maximize customer satisfaction and foster customer loyalty.

2.4.1.7 Optimizing business process management

BPO lays stress on optimizing Business Process Management (BPM), considering the growing realization that productivity and customer experience can be enhanced only when critical processes are standardized. In BPO companies, processes are standardized by implementing and codifying industry best practices across all the service hubs functioning within the organization. This helps in identifying activities that are critical to a given business process and those that can be eliminated without affecting quality and without causing a disruption in services (Bottani and Rizzi, 2006).

2.5 Business Process Outsourcing (BPO) Categories

BPO is often divided into two categories: back office outsourcing, which includes internal business functions such as billing or purchasing, and front office outsourcing, which includes customer-related services such as marketing or technology support. BPO that is contracted outside a company's own country is sometimes called offshore outsourcing. BPO that is contracted to a neighboring country is sometimes called near shore outsourcing and BPO that is contracted within the company's own country is sometimes called "onshore" outsourcing (Namasivayam, 2004). Outsourcing is a trend that is becoming more common in information technology and other industries for services that have usually been regarded as intrinsic to managing a business. In some cases, the entire information management of a company is outsourced, including planning and business analysis as well as the installation, management and servicing of the network and workstations. However, from offering single services BPO has come a long way and now covers an array of operations from finance, banking, insurance, human resources development and training. to health care, mortgage and credit card services,

asset management, customer care, logistics and distribution, engineering, procurement, real estate, sales and marketing and web-related services.

According to Namasivayam (2004), non-core and critical business processes such as IT services, manufacturing and finance are the fastest growing outsourcing segments, as companies are moving towards outsourcing these services to third-party providers. Over time, many business processes which were treated as core have become non-core and companies opt to outsource them. It may be pointed out that simpler services such as data entry and other basic processing tasks are considered as low-value and low-risk operations and bring low margins. Rules-based operations such as payroll processing are at the intermediate level in terms of value and risk. BPO relating to decision-making and problem-solving operations involves high-value and high-risk jobs. When BPO services include direct contact with customers or clients (e.g., call centre operations) the skill requirement increases dramatically as the success of a deal depends on excellent communication and knowledge of the industry concerned and the client's mindset. When service providers offer consulting and advisory services, complex services requiring business skills and advanced services (such as risk management and sophisticated data analysis), profit margins of BPO providers are significantly higher (Namasivayam, 2004).

2.5.1 Benefits of BPO: more than just cost-cutting

After over a decade of economic boom times, the recent global economic turndown has significantly accelerated and intensified market competition pressures, causing many corporations to seek innovative ways to deal with the changed economic landscape. In the process, an increasing number of organizations worldwide have turned to BPO, which has significantly lower overhead costs without sacrificing quality and productivity levels. Today, BPO is considered not only as a simple cost-cutting mechanism but also as a strategic initiative, which is expected to shape and ready the organization for future business dynamics. Apart from cost-cutting, BPO saves precious management time and resources by allowing companies to concentrate on core competencies (TOB, 2010).

BPO providers always have a process expertise and enjoy significant economies of scale and scope by offering the same services to different clients. Reducing operating costs and

focusing more attention on the core activities of the company are the main reasons behind outsourcing. Additionally, the availability of variable cost structures, improved quality and speedier services are other important considerations and plus factors as well. However, the positive implications of BPO services for a company's performance also depend on the managerial ability of the BPO client company (TOB, 2010). They are closely related to the company's goals, objectives and vision, the selection of the BPO provider, the development of a structured contract, the mutual relationship between provider and buyer and the financial justification. More than ever, BPO needs a sophisticated set of skills to keep the dynamic relationships in balance. Before engaging any vendor to provide BPO, a company needs to clearly understand the requirements for BPO and their technical feasibility. During the engagement of a BPO vendor, a detailed solution design needs to be articulated and a pilot project may be run so as to transfer the knowledge base to the vendor. BPO contracts should be evaluated regularly as technology requirements and cost structures vary considerably over time.

2.5.2 Tax system incentives and BPO firms in Kenya

Business process outsourcing companies are petitioning the Kenyan government to come up with a friendly tax structure that will make them competitive in the region. The firms say the country's tax system is so hostile to the sector that it has created a breeding ground for foreign outsourcing companies to thrive. As a result, they risk losing the expanding outsourcing market to international firms that enjoy an assortment of tax incentives extended to them by their countries. The sector has already sent a taxation structure proposal to the government, asking it to come up with a relatively conducive tax system that will create a level playing field with its international counterparts. The appeal came after a study funded by the Canadian International Development Research Council which showed that Kenya is yet to catch up with popular BPO destinations such as Mauritius, South Africa, Ghana and India (TOB, 2010).

The study noted that South Africa, one of the leading BPO destinations in the world, does not have tax incentives but has comprehensive investment, training and funding, while Mauritius had abolished taxes except for a 15 per cent corporate tax. On the other hand,

China offers subsidized world class infrastructure, tax incentives for purchases, zero corporate tax status and a 30 per cent personal income tax rebate to employees working in units in the special parks set up by the government. For instance Ken-Tech should formulate a tax scheme that will expose BPOs to a corporate tax relief of up to five years holiday and a labor tax relief holiday to encourage youth to join BPOs and make it their career succession plan. Also to be factored in the radical tax shift is the pay-as –you-earn relief, BPO training subsidies as well as the formation of a data security Act. There is a danger that Kenyan BPOs may opt to relocate to tax-friendly countries such as Philippines, unless the government takes drastic steps to address its outsourcing environment. This in turn could reflect in loss of jobs (TOB, 2010).

2.6 Empirical Review

The global offshore outsourcing market for IT and business services exceeded \$55 billion USD in 2008, and some estimates suggest an annual growth rate of 15-20 per cent over the next five years. In 2008 India posted some 65 per cent of the ITO and 43 per cent of the BPO market. It is common to talk of Brazil, Russia, India and China as the BRIC inheritors of globalization, offering both offshore IT and back-office services, and also, with their vast populations and developing economies, huge potential markets. Indeed, in 2008 India exported \$40 billion of such services, while China, Russia, and Brazil achieved \$5 billion, \$3.65 billion, and \$800 million respectively. However, by 2009 there were over 120 other active offshore locations offering IT and business process services or captive locations for these. All were looking for new business. Moreover, the BRIC countries are not without their problems, with Brazil and China hardly leveraging their potential. Russia lacks government support and is being led into high-value but niche work, while India and China may even be seen turning to non-BRIC locations for some solutions, for example to secure low costs and labor availability (Kern, 2002).

A recent review suggests seven pressures shaping 11 major trends in global sourcing over the next five years. The LSE Outsourcing Unit points to the following key pressures in global off shoring/outsourcing markets: large Indian players moving up the value chain, best-shoring, vendors acquiring small outlets and moving into new sectors; large players

offering “multi-tower” service across IT, HR, procurement, finance, and/or administration; client pressure towards multiple suppliers that are better managed and bound in; developing outsourcing services in many countries; world economic and business pressures exerting continuing downward pressure on costs, but also towards innovation, exacerbated by the 2008-2010 recession; more sub-contracting and its hidden costs; and the unending search for new sources of skills, and for better labor models at more attractive pressures (Kahraman, 2007).

The most probable major trends can also be spelled out. There will be a continuing rise in outsourcing revenues for global outsourcing, with BPO overtaking ITO within five years. Multi-sourcing will continue to be the dominant trend. India will continue to dominate but its role will change (Jee, 2000). China heralds promise but will still struggle to achieve scale in Western European and North American markets. Emerging country competition will intensify. Software as a service will be a “slow burner” but will gain momentum in the second half of the next decade. Near-shoring will be a strong trend. Outsourcing, by offering a potential alternative, will help discipline in-house capabilities and service. Knowledge process outsourcing will increase as the BRIC and emerging countries move up the value chain. Outsourcing successes and disappointments will continue as both clients and suppliers struggle to deal with a highly dynamic set of possibilities. Let us now look at some of these trends and related issues more closely (IDC, 2007).

As mentioned earlier, India still holds the clear lead as the preferred destination for outsourced services, both ITO and BPO. Its role as the primary sourcing destination was cemented in the late 1990s as multi-national corporations struggled to deal with the looming Y2K conversion effort. India was well positioned due to its educated work force, foreign investment friendly government policies, stable political climate and English language proficiency. India has steadily grown in its delivery capacity, higher value capabilities and reputation throughout the last twenty years (Gonzalez, 2005). All signs point to India's continued dominance in both the ITO and BPO markets for the near future.

China, however, hopes to increase its role and presence on the global sourcing stage. Despite the relatively low percentage of software production that is exported (10 per cent for China versus 78 per cent for India); the dollar value of the Chinese software industry itself is twice that of India's (Carmel *et al.*, 2008). China continues to register impressive growth in its software industry. According to China Tech News, China's 18,000 software companies registered 50,000 software products and the industry realized a year-on-year growth rate of 30.4 per cent in the first half of 2008 (China Tech News, 2008).

2.6.1 BPO in Kenya

Not very many industries have the potential to create direct and indirect jobs for the masses as the BPO industry. There is need to ensure a level-playing field for the players in this infant industry vis-a-vis its global competitors. Corporate should now consider shifting their non-core businesses to outsourcing to cut on costs, especially at this time of the economic financial crisis.

Today, Ken-Tech is one of the leading BPOs in the country, offering call centre services, data processing services, transaction processing services as well as digitalization services. Despite the upheavals, the country is still on the right track to ensuring the sector grows in tandem with technological changes, especially with the coming of faster internet connections. Just before the landing of the fiber-optic cable, the Kenya ICT Board introduced a bandwidth subsidy to the sector operators, which players say has had a major impact on their growth (Duening, 2005).

In a clear signal that Kenya is willing to make the outsourcing sector thrive, the government in partnership with one of the world's leading researchers carried out a survey, the findings of which are yet to be implemented. Experts, however, say the findings, among others, will recognize the outsourcing industry as a stand-alone from the tax perspective (Deng, 2000).

Currie (2001) argued that there exists a huge gap in higher level outsourcing services like financial analysis, data mining, engineering, research and development, insurance claims

processing, architectural design, remote education and publishing, medical diagnostics, and journalism.

More industries appear to be warming up to the idea of outsourcing their services. Kenyatta National Hospital head of the renal unit recently entered into an agreement with KenCall in which the public can call the company and get information on any kidney-related issues like treatment and so on.

India still dominates the global BPO market at 55 per cent. In the five years to 2008, the country had a cumulative total of 241 foreign direct investment (FDI) projects in customer contact centers and shared services centers.

Africa, as a whole, had a total of 48 similar projects in the period under review. India's long term experience in the BPO business, government support, and its large pool of IT graduates has served to entrench its top position.

2.7 Growth Factors of BPO

2.7.1 Tax system

The ambiguous tax laws are a greater cause for heartburn for the domestic BPO industry than doomsday predictions of the backlash. Lack of clarity in tax laws will only discourage foreign companies from investing in or outsourcing to the country. China's tax laws are far simpler and well defined (Currie, 2001). The confusion is not restricted to tax laws alone. There are other grey areas as well like transfer pricing. Transfer pricing margins have not been laid down by the government. It's typically in the 5-20 per cent range presenting further scope for subjective interpretation and ambiguity (Conklin, 2005).

Looking at the broader perspective, the BPO industry is credited with creating jobs that otherwise wouldn't have existed. The Kenyan government is already benefiting from tax on the individual incomes of employees working in these BPO outfits. Secondly, as a result of BPO activity, the government is levying a significant amount of indirect taxes in the form of customs and excise (Chen, 2006). The government needs to have a holistic

perspective on the issue. India is just beginning to build the BPO industry and the adverse tax laws may put a blot on competitiveness. Kenya features among the prime outsourcing destinations among Philippines, China, Mexico, Ireland, Poland, Australia, Hong Kong, Russia and New Zealand and clients who would look at Kenya as a favored BPO destination would be discouraged if there is no change in the tax structure. India needs to project itself as a country that has stable tax policies and pave the way for smooth entry of even more BPO jobs into the country (China Tech New, 2008).

Tax implications for the BPO sector include; Taxing BPO clients will increase the cost of transacting in Kenya. This will make Kenya less cost-effective. Companies will be discouraged from outsourcing their processes to Kenya; this will slow down the growth rate of the Kenyan BPO sector (Chen, 2000).

Kenya's BPO sector will lose out vis-à-vis its competitors like Philippines, China, Ireland, Hong Kong, etc, if government adopts tough tax regimes. The employment generated by the BPO sector might take a beating and the country will lose out significantly on the income tax charged on individual employees. Overseas clients might perceive Kenya as a country where taxation policies are not stable. Kenya needs to project itself as a stable destination (Carmel, 2008).

2.7.2 Dimensions of company attributes

The variables that are likely to affect the scope of BPO needs are identified: operating characteristics, firm size, IT maturity and culture. The outsourcing needs of the company are analyzed against these variables.

Operating environment

As companies are surrounded by more cost pressure, they tend to place tight control on the operations. In one study (Klass *et al.*, 1999), companies facing cost pressures and thus requiring flexible HR management in terms of adjustment in staffing levels perceive increased amount of HR outsourcing to be more beneficial. From TEC perspective, more

cost pressures create more values perceived by managers of the firm, which sufficiently offset the risk of opportunistic behavior by the service providers (Williamson, 1996).

Difficult financial situation can be a result from a combination of competitive intensity, sales decrease and an undesirable economic forecast for the firm (Argyris, 1953). “Competitive intensity” is defined as the degree of rivalry among firms producing products that are close substitutes (Jaworski, 1998; Gatignon, 1984; Porter, 1980). Companies facing intensive competition are likely to have more pressure for cost savings and efficient personnel management. Otley (1978) found that managers in a tougher operating environment for making profits relied more on budgets than managers in liberal operating environments. Thus, more emphases are placed on budget assessments/monitoring and costs/expenses (Merchant, 1984; Otley, 1978; Jaworski, 1998).

Companies in the tougher environment also tend to adopt new technology (Kim and Lee, 2002) to create value and cumulate knowledge. Thus, in this research, companies in the tougher environment are likely to seek more “IT based BPO” for cost saving and value creation. In this study, firm's competitive intensity, fund pressures and market position were asked to estimate the firms' operating environment.

Firm size

The size of the company is determined by the number of employees, sales amount and assets (Kim and Lee, 2002). From TCE perspective, firm size relates to the economy of scale and transaction costs that determine a choice of the governance structure (Abraham and Taylor, 1996; Williamson, 1996; Klass *et al.*, 1999; Bunduchi, 2005). According to a study on HR outsourcing, smaller firms that have higher per unit cost to acquire specialized HR services, perceives greater cost savings from increased HR outsourcing (Klaas *et al.*, 1999).

According to the organizational value studies, firm size is also related to organization's value system hence to the organizational design strategy. Smaller organizations are likely to have “flexibility-oriented values” that mainly use decentralization and differentiation

strategies. Kelly (1990) found that organization's size significantly affect the organizational design strategy in the domain of production worker's jobs. In her findings, the probabilities of decentralization are higher in small, single-plant enterprises than in large, multi-plant enterprises.

On the other hand, large organizations tend to emphasize “control-oriented values” that are characterized as centralization and integration (Zammuto and Krakower, 1991; Zammuto and O'Connor, 1992). Within control-oriented values, organizations are likely to use hierarchical coordination and control system that mainly comprises with formalization and long-term planning (i.e. two aspects of hierarchical coordination and control systems). Example of a large organization with centralization and integration focus is IBM. IBM's Human Resource Service Center delivers centralized human resource support to over 500,000 employees and retirees (Gonzales *et al.*, 1999).

Therefore, the following can be speculated: smaller organizations that tend to have “flexibility-oriented value” perceive BPO as greater cost savings. Therefore, smaller organizations might want to outsource more. Thus, the firm size is selected as a variable that is likely to affect the scope of BPO.

Information technology maturity and culture

The level of IT maturity and creative culture of the firm could influence the adoption of IT intensive BPO as well as the scope of BPO. IT maturity is defined as the degree to which companies incorporate IT in order to achieve organizational aims (Arribas and Inchusta, 1999). There are multiple criteria to differentiate more mature firms from less mature firms. The criteria include expenditure on hardware, years of computer use, user participation in IS projects and formal IS planning and evaluation (Benbasat, 1984). Another criterion to measure IT maturity is the degree of IT integration (Karimi *et al.*, 1996) – as firms approach maturity phase, firms tend to integrate the IS.

The firms see BPO as an opportunity to renovate their process using new breed of IT. Thus, IT maturity level of the firm could positively influence the decision to adopt IT intensive BPO and the scope of BPO. This study includes the following items to measure

IT maturity: expenditure on IT at the firm level, usage level of IT at the firm level, level of IT adoption by HR department and use of integrated system such as enterprise resource planning systems.

Culture is defined as “the set of important assumptions that members of communities share in common (Sathe, 1985)”. The role of culture in promoting a new way of doing things and successful implementation of IS is vital (O'Reilly, 1989; Bradley *et al.*, 1993; Pliskin *et al.*, 1993; Weber and Pliskin, 1996; Romm *et al.*, 1991). Thus, this study considers creative culture of the business to have positive impact on adoption and degree of IT intensive BPO. The following items were included to measure creative culture: freedom for risk taking, rewards for change, openness in communication, minimization of the bureaucracy, autonomy in decision-making and teamwork (O'Reilly, 1989).

2.8 Conclusion

In a competitive environment, the success of organizations will increasingly depend on which business process they should outsource with suitable vendors in their strategic decisions. However, managers are often uncertain about how to decide the most suitable BPO decision to enhance their business in an easy and effective manner. In general, finding the BPO evaluation criteria and developing an appropriate selection model are the most important issues before a strategic decision is made. It is also imperative for decision makers to identify risks and benefits of BPO prior to forming a decision-making tool. These kinds of qualitative criteria make the evaluation process vague and uncertain. Therefore, in a decision-making process, the use of linguistic variables is highly beneficial when the judgments from decision makers cannot be expressed by crisp numbers. Thus, the objective of this paper is to determine the major factors that influence the growth of BPO in order to document the criterion which is appropriate in selection of the most suitable BPO decision that decision makers can apply to their organization. In addition, the proposed criteria will be very useful to the managers in different sectors, as this method make decision making easier, systematic, efficient and effective.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in collection of data pertinent in answering the research questions. It is divided into research design, target population, sample and sampling techniques, description of research instruments, description of the data collection procedures, description of data analysis procedures and data presentation

3.2 Research Design

The research design that was used in this study is a descriptive survey design. Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). In addition he observed that research design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money. In this regards, since this study was investigating the factors that affect the growth of the BPO industry, descriptive survey design becomes the most appropriate. The study also integrated both qualitative and quantitative methods.

3.3 Population of the study

The population of this research study was managers in all the registered BPO companies in Kenya. There are 12 registered BPO companies in Kenya (see appendix II). In each BPO company there are 4 managers; human resource manager, finance manager, operations manager and marketing manager. The target population was therefore 48 respondents.

3.4 Data Collection

Primary data collection was done with the use of a questionnaire. Mugenda and Mugenda (2003) observed that, the pre-requisite to questionnaire design is definition of the problem and the specific study objectives. Primary data was collected using a structured questionnaire distributed to Heads of Finance, Operations, Human Resources and Marketing in each of the BPOs in existence in Kenya. The study used questionnaires primarily due to their practicability and applicability to the research problem. The questionnaire contained a mix of open-ended and closed- ended questions. The respondents were given options of checking several boxes and questions in which respondents gave their views in their own words. The researcher visited 11 out of the 12 target firms; the one not visited was confirmed to have shut down the previous week. In one of the organizations the researcher visited, the contact person had just resigned the week before and due to that, the researcher had to introduce one self. Coming from one of the pioneer BPO, the researcher was considered to be coming from a competitor and most people were bound to withhold information. But when the researcher realized that, she decided not to identify with their employer again but instead identified with University of Nairobi to be able to get the information.

One of the target BPO, the researcher got to learn, had closed shop the previous week and had not left any forwarding address at their previous premises. The researcher did not therefore get any information from them. 3 of the BPO's were not in a position to give feedback on the questionnaire immediately and requested the researcher to send the questionnaire on soft copy and the response was in turn received in soft copy. For one of them, it required a lot of follow up by the researcher to actually get the feedback from them, but this was finally received. 4 of the respondents preferred to the researcher to take them through the questionnaire one question after the other for their response, sort of an interview, which the researcher handled well. 4 other BPO's requested the researcher to drop in the questionnaire and pick it up at a later hour/ date.

BPO Companies being private companies are very conservative as regards the sharing of information. This is still a very young and competitive industry and also still very closed. The researcher found it difficult to get the respondents to affix their Company stamp.

There was fear that this information can be used against their Company and against them. The researcher was able to put all these together for the analysis.

3.5 Data Analysis and Presentation

Collected data was examined and checked for completeness (that all the questions in the questionnaire had been tackled) and comprehensiveness (understandability). The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data was coded and entered into the Statistical Package for Social Sciences (SPSS) version 12 for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of bar charts and graphs, percentages and frequency tables. This ensured that the gathered information is clearly understood.

The demographic information in Section A was used to categorize respondents into their years of service with the respective employers as well as their level of education. This helped to know the degree of reliability of the information that the respondents gave. This information was presented in a tabular form. In Section B, information from Q5 sort to establish the extent of the effect of the current tax regime on growth of BPO Companies in Kenya. Q6 sort to identify to what extent the specific factors of tax affect the growth of the BPO Companies. Q7 required the respondent to put down any other factors they felt were not covered in Q5 and Q6 in their own view. This information was analyzed through cross tabulation of the means and standard deviations and presented in a tabular form.

Section C required the respondent to indicate some of the things the Government can do to ensure continuous growth in the sector. Q8 required the respondent to give their own opinion on what these factors would be, while Q9 required the respondent to tick from a list on incentives given. Q10 sort the benefits of outsourcing to the industry in the opinion of the respondent. Q11 was on the benefits of outsourcing to the government and Q12 sort the extent to which the different BPO growth factors affected each of the respondents company. This information was analyzed through cross tabulation of the means and standard deviations. Factor analysis was also employed to examine how underlying constructs influenced the responses on a number of underlying variables.

3.6 Reliability and Validity of Data

According to Joppe (2000) validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. It determines whether the research instrument allow the researcher to get the correct information. Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others. Comprehensive research instruments were developed and tested before the real investigation start. This testing was done by use of a pilot study whereby the questionnaire was administered to the 12 respondents in the BPO companies to acquire the information required for the study.

According to Joppe (2000) reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Reliability has to show the degree at which the research instruments will yield good results. In order to achieve this, the researcher personally administered the instruments in order to assess their clarity. If possible some of the respondents were interviewed to ascertain whether the information given in the questionnaire would match with response of the interview.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The objective of the study was to explore the determinants of growth of business process outsourcing in Kenya. This chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables and percentages to present data.

The Response Rate

The researcher targeted a sample of 48 respondents out of which 42 responses were obtained. This represented an 87.5% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 87.5% is even better. The respondents were working in the following BPO companies; Quick data BPO, Direct Channel limited (Simba technology limited), Verve K.O. Limited, Lynxbits Limited, Call Center Solutions E.A. Limited, Technocate BPO & Research, Kencall EPZ ltd and Kentech data ltd.

4.2 General information

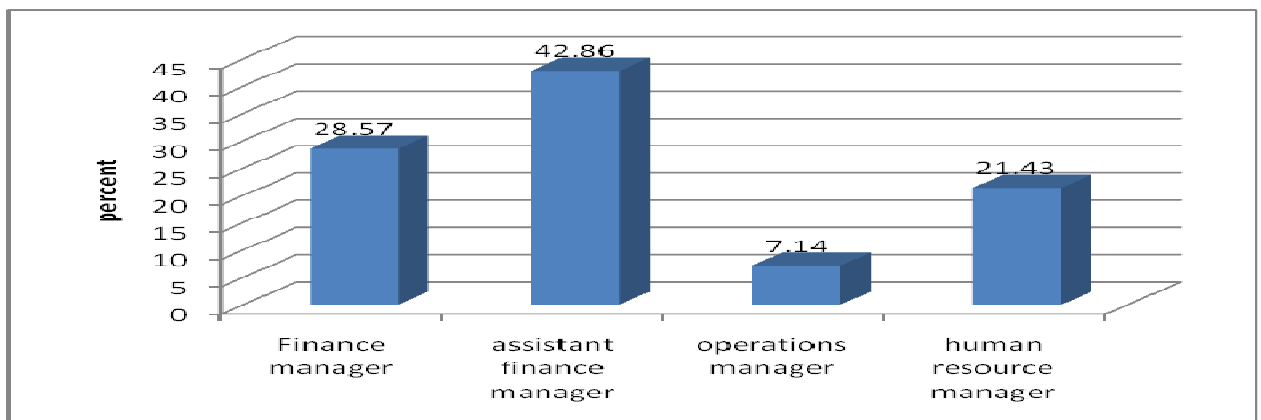


Figure 4. 1: Respondents' designation

Figure 4.1 above shows the positions the respondents were holding in their company's. 28.57 of the respondents said that they were finance managers, 42.86% said that they were assistant finance managers, 7.14% said that they were operations managers and 21.43% said that they were human resource managers. This shows that majority of the respondents were finance officers and hence they have information on determinants of growth of BPOs.

Duration of time in the company

Table 4. 1: Duration of time in the company

	Frequency	Percent
Between 1 and 5 yrs	42	100.0

On the duration of time spent in their company, all the respondents had spent between 1 to 5 years.

Level of education

Table 4. 2: Respondents' level of education

Level of education	Frequency	Percent
Undergraduate	36	85.7
Masters	6	14.3
Total	42	100.0

On the respondents' level of education as shown by table 4.2, 85.7% of the respondents indicated that they were undergraduates while 14.3% indicated that they had masters. This shows that all the respondents were educated and were in a position to give feedback to the questionnaire given.

4.3 Determinants of growth of business process outsourcing sector

Whether tax structure affect company's growth and performance

Table 4. 3: Whether tax structure affect company's growth and performance

Response	Frequency	Percent
yes	42	100.0

The researcher requested the respondents to indicate whether Kenya government tax structure affects their company's growth and performance. In their response all the respondents (100%) indicated that that tax structure was affecting their company's growth and performance. From these findings we can deduce that the Kenyan government tax structure affect BPO Company's growth and performance.

Factors that affect the growth and the performance of the respondents company

Table 4. 4: Factors that affect the growth and the performance of the respondents company

	Mean	Std dev
Transfer pricing laws	3.119	1.656
Ambiguous tax	3.238	1.649
Lack of clarity in tax laws	3.238	1.649
Unfriendly tax structure	3.238	1.649

Table 4.4 above shows the factors affect the growth and the performance of the respondents company. A five point likert scale was used to interpret the respondent's responses. According to the scale, those factors which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data.

According to the researcher those factors with a mean close to 4.0 were rated as to a very great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. On the same note the higher the standard deviation the higher the level of dispersion among the respondents. Transfer pricing laws was agreed with a mean of 3.119 and a standard deviation of 1.656, ambiguous tax was agreed with a mean of 3.238 and a standard deviation of 1.649, lack of clarity in tax laws was agreed with a mean of 3.238 and a standard deviation of 1.649 and unfriendly tax structure was agreed with a mean of 3.238 and a standard deviation of 1.649.

Factor analysis

It is a statistical approach that can be used to analyze interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). The statistical approach involving finding a way of condensing the information contained in a number of original variables into a smaller set of dimensions (factors) with a minimum loss of information (Hair et al., 1992).

Communalities of factor variance

Table 4. 5: Communalities of factor variance

Principal component analysis	Initial	Extraction
Extent to which transfer pricing laws affect growth and performance of the company	1.000	.227
Extent to which ambiguous tax affects growth and performance of the company	1.000	.947
Extent to which lack of clarity in tax laws affects growth and performance of the company	1.000	.841
Extent to which unfriendly tax structure affects growth and performance of the company	1.000	.947

Extraction Method: Principal Component Analysis.

Table 4.5 above helps estimate of communalities for each variance, the proportion of variance that each factor has in common with other factors. ‘Extent to which ambiguous tax affects growth and performance of the company and unfriendly tax structure affects growth and performance of the company’ has 94.7% communality or shared extent to which relationship with other factors. This value has the greatest communality with others, while ‘extent to which transfer pricing laws affect growth and performance of the company’ has the least communality with others of 22.7%. Extent to which lack of clarity in tax laws affects growth and performance of the company had a communality of 84.1%. This means that ambiguous tax and unfriendly tax structure have a high effect on the growth and performance of a Company.

Total Variance

Table 4. 6: Total Variance

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.961	74.032	74.032	2.961	74.032	74.032
2	.837	20.928	94.961			
3	.202	5.039	100.000			
4	-2.166E-16	-5.416E-15	100.000			

Extraction Method: Principal Component Analysis.

In table 4.6 above, the researcher used Kaiser Normalization Criterion, which allows for the extraction of components that have an Eigen value greater than 1. In the second column (Eigen value) above, we find the variance on the new factors that were successively extracted. The principal component analysis was used and one factor was extracted. In the third column, Eigen values are expressed as a percent of the total variance. As shown above, factor 1 accounts for 74.032 percent of the variance, factor 2 for 20.928 and factor 3 5.039. As expected, the sum of the Eigen values is equal to the number of variables. The third column contains the cumulative variance extracted. As the table shows, the factor explains 74.03% of the total variation.

Component Matrix

Table 4. 7: Component Matrix

Principal Component analysis	Component
	1
Extent to which transfer pricing laws affect growth and performance of the company	.477
Extent to which ambiguous tax affects growth and performance of the company	.973
Extent to which lack of clarity in tax laws affects growth and performance of the company	.917
Extent to which unfriendly tax structure affects growth and performance of the company	.973

Extraction Method: Principal Component Analysis.

a 1 components extracted.

The initial component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. The above results allowed the researcher to identify what variables fall under the extracted factor. Each of the 4 variables was looked at and placed to the factor depending on the percentage of variability. A variable is said to belong to a factor to which it explains more variation than any other factor.

Each number represents the correlation between the item and the un rotated factor. from the findings as shown by table 4.7, the correlation between extent to which transfer pricing laws affect growth and performance of the company and factor 1 was 0.477, the correlation between extent to which ambiguous tax affects growth and performance of the company and a factor 1 is 0.973, the correlation between extent to which lack of clarity in tax laws affects growth and performance of the company and factor 1 is 0.917 and the correlation between extent to which unfriendly tax structure affects growth and performance of the company and factor 1 is 0.973. These findings show that all the four factors were strongly correlated to factor 1 and a change any of them would subsequently lead to a change in factor 1.

Effects of tax regime on the BPO sector

Table 4. 8: Effects of tax regime on the BPO sector

Effect of Tax regime on the BPO Sector	Mean	Std dev
risk of losing the expanding outsourcing market to international firms	4.429	0.737
Increase of cost of transacting in Kenya	4.571	0.501
Slow down of growth rate of the Kenya BPO sector	4.286	0.708
Companies will be discouraged from outsourcing their processes to Kenya	4.143	0.647

The effects of tax regime on the BPO sector, risk of losing the expanding outsourcing market to international firms was agreed with a mean of 4.429 and a standard deviation 0.737, increase of cost of transacting in Kenya was agreed with a mean of 4.571 and a standard deviation of 0.501, slow down of growth rate of the Kenya BPO sector was agreed with a mean of 4.286 and a standard deviation of 0.708 and companies will be

discouraged from outsourcing their processes to Kenya was agreed with a mean of 4.143 and a standard deviation of 0.647.

Other effects of tax regime on the BPO sector as indicated by the respondents were that; it makes cost of doing business expensive hence causing high unemployment rate, since the BPO sector is still in its initial stages of growth tax regimes cause firms to shutdown, since it becomes hard for BPO forms to get funding, tax regimes also reduce profit margins and leads to inability to price services competitively vis a vis other competing nations.

Methods the government can use to ensure continuous growth of BPO sector

On the methods the government of Kenya can use to ensure continuous growth of the BPO sector the respondents indicated competitive or attractive tax regime, removal of conflicting regulatory structures, encouraging or constructing BPO (EPZ) locations, encourage standardization of regulatory work related procedures and processes in the BPO industry, reduction of tax rates, giving more incentives e.g. tax holidays and zero rating equipments imported for use in the BPO sector.

Applicable tax incentives that can be used by the Kenyan government

Table 4. 9: Applicable tax incentives that can be used by the Kenyan government

Tax incentives	Yes	No
Tax holidays	100	0
Timing differences	14.3	85.7
Investment allowances and tax credits	85.7	14.3
General tax reductions	71.4	28.6
Non income tax based incentives	57.1	42.9

Table 4.9 above shows the most applicable tax incentives that can be used by the Kenya government in order to ensure growth of the BPO sector. Tax holidays were agreed by 100% of the respondents, timing differences was agreed by 14.3% and disagreed by 85.7% of the respondents. Investments allowances and tax credits was agreed by 85.7%

and disagreed by 14.3% of the respondents. General tax reductions was agreed by 71.4% and disagreed by 28.6% of the respondents. Non income tax based incentives was agreed by 57.1% and disagreed by 42.9% of the respondents. From these findings we can deduce that the most applicable tax incentives that can be used by the Kenya government to ensure growth of the BPO sector include; tax holidays, timing differences, investment allowances and tax credits, general tax reductions and non income tax based incentives.

4.4 Benefits of BPO to the outsourcing industry

Table 4. 10: Benefits of BPO to the outsourcing industry

	Mean	Std dev
Increase in focus on quality and customer needs	4.714	0.457
Enabling cross selling and up selling capabilities	4.571	0.737
Enabling and promoting self service practices	4.29	0.708
Conceptualizing and developing proactive systems	4.71	0.457
Optimizing business process management	4.57	0.500
Complying with the SLAs and other mandatory requirements	4.286	0.708
Laying stress on automation for optimizing work processes	4.167	0.697

Table 4.10 above shows the benefits of business process outsourcing to the government. Increase in focus on quality and customer needs was agreed with a mean of 4.714 and a standard deviation of 0.457, enabling cross selling and up selling capabilities was agreed with a mean of 4.571 and a standard deviation of 0.737, enabling and promoting self service practices was agreed with a mean of 4.29 and a standard deviation of 0.708, conceptualizing and developing proactive systems was agreed with a mean of 4.71 and a standard deviation of 0.457, optimizing business process management was agreed with a mean of 4.57 and a standard deviation 0.5, complying with the SLAs and other mandatory requirements was agreed with a mean of 4.286 and a standard deviation of 0.708, laying stress on automation for optimizing work processes was agreed with a mean of 4.167 and a standard deviation of 0.697.

Benefits of business process outsourcing

Table 4. 11: Benefits of business process outsourcing

Benefits of business process outsourcing	Mean	Std dev
Tax on the individual incomes of employees working in these BPO	4.24	0.979
levying a significant amount of indirect taxes in the form of customs and excise	3.24	1.120
Slow down of growth rate of the Kenya BPO sector	3.048	1.480
Companies will be discouraged from outsourcing their processes to Kenya	3.048	1.622

Table 4.11 shows the benefits of business outsourcing. Tax on the individual incomes of employees working in these BPO was agreed with a mean of 4.24 and a standard deviation of 0.979, levying a significant amount of indirect taxes in the form of customs and excise was agreed with a mean of 3.24 and a standard deviation of 1.12, slow down of growth rate of the Kenya BPO sector was agreed with a mean of 3.048 and a standard deviation of 1.48 and companies will be discouraged from outsourcing their processes to Kenya was agreed with a mean of 3.048 and a standard deviation of 1.622.

Factors affecting the growth of business process outsourcing

Table 4. 12: Factors affecting the growth of business process outsourcing

Factors affecting the growth of business process outsourcing	Mean	Std dev
Tax system	4.333	0.979
Operation environment of the company	3.24	1.220
Firm size	3.095	0.850
Information technology maturity	3.38	1.834

Table 4.12 above shows the factors affecting the growth of business process outsourcing. Tax system as a factor affecting the growth of business process outsourcing was agreed with a mean of 4.333 and a standard deviation of 0.979, operational environment of the company was agreed with a mean of 3.24 and a standard deviation of 1.22, firm size was

agreed with a mean of 3.095 and a standard deviation of 0.85, information technology maturity was agreed with a mean of 3.38 and a standard deviation of 1.834.

Factor analysis

Communalities of factor variance

Table 4. 13: Communalities of factor variance

Principal component analysis	Rescaled	
	Initial	Extraction
Tax system affects the growth of business outsourcing	1.000	.140
Operation environment of the company affects growth of business outsourcing	1.000	.415
Firm size affects the growth of business outsourcing	1.000	.767
Information technology maturity affects the growth of business outsourcing	1.000	.918

Extraction Method: Principal Component Analysis.

Table 4.13 above shows the proportion of variance that each item has in common with other factors. For example ‘firm size affects the growth of business outsourcing’ has 76.7% communality or shared relationship with other factors. This value has the greatest communality with others, while ‘tax system affects the growth of business outsourcing’ has the least communality with others of 14.5%.

Principal component analysis

Table 4. 14: Principal component analysis

Component	Initial Eigen values(a)			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.023	63.423	63.423	2.240	56.010	56.010
2	1.109	23.258	86.681			
3	.450	9.439	96.120			
4	.185	3.880	100.000			

Extraction Method: Principal Component Analysis.

In table 4.14 above, the researcher used Kaiser Normalization Criterion, which allows for the extraction of components that have an Eigen value greater than 1. In the second column (Eigen value) above, we find the variance on the new factors that were

successively extracted. The principal component analysis was used and one factor was extracted. In the third column, Eigen values are expressed as a percent of the total variance. As shown above, factor 1 account for 63.423 percent of the variance, factor 2 for 23.258 and factor 3 for 9.439 and factor 4 for 3.880. As expected, the sum of the Eigen values is equal to the number of variables. The third column contains the cumulative variance extracted. The principal component analysis was used and one factor was extracted. As the table shows, the factors explain 56.01% of the total variation.

Component Matrix

Table 4. 15: Component Matrix

Principal component analysis	1
Tax system affects the growth of business outsourcing	.374
Operation environment of the company affects growth of business outsourcing	.644
Firm size affects the growth of business outsourcing	.876
Information technology maturity affects the growth of business outsourcing	.958

Extraction Method: Principal Component Analysis.

1 component extracted.

The initial component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. The above results allowed the researcher to identify what variables fall under the extracted factors. Each of the 4 variables was looked at and placed to the extracted factor depending on the percentage of variability; it explained the total variability of the factor. A variable is said to belong to a factor to which it explains more variation than any other factor.

Each number represents the correlation between the item and the un rotated factor. from the findings in table 4.15 above, the correlation between tax system affects the growth of business outsourcing and factor 1 is 0.374, the correlation between operation environment of the company affects growth of business outsourcing and a factor 1 is 0.644, the correlation between firm size affects the growth of business outsourcing and factor 1 is 0.876 and the correlation between information technology maturity affects the growth of business outsourcing and factor 1 is 0.958. These findings show that all the

four factors were strongly correlated to factor 1 and a change any of them would influence a change in factor 1.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of this study which was to explore the determinants of growth of business process outsourcing in Kenya.

5.2 Discussions of Key Findings

From these findings of this study we can deduce that the unclear Kenyan government tax structure affect BPO Company's growth and performance.

On the factors that affect the growth and the performance of the BPOs company, transfer pricing laws was agreed with a mean of 3.119 and a standard deviation of 1.656, ambiguous tax was agreed with a mean of 3.238 and a standard deviation of 1.649, lack of clarity in tax laws was agreed with a mean of 3.238 and a standard deviation of 1.649 and unfriendly tax structure was agreed with a mean of 3.238 and a standard deviation of 1.649.

On the effects of tax regime on the BPO sector, risk of losing the expanding outsourcing market to international firms was agreed with a mean of 4.429 and a standard deviation 0.737, increase of cost of transacting in Kenya was agreed with a mean of 4.571 and a standard deviation of 0.501, slow down of growth rate of the Kenya BPO sector was agreed with a mean of 4.286 and a standard deviation of 0.708 and companies will be discouraged from outsourcing their processes to Kenya was agreed with a mean of 4.143 and a standard deviation of 0.647.

Other effects of tax regime on the BPO sector as indicated by the respondents were that; it makes cost of doing business expensive hence causing high unemployment rate, since the BPO sector is still in its initial stages of growth tax regimes cause firms to shutdown, since it becomes hard for BPO firms to get funding, unclear tax regimes also reduce profit margins and leads to inability to price services competitively vis a vis other competing nations.

On the methods the government of Kenya can use to ensure continuous growth of the BPO sector the respondents indicated competitive or attractive tax regime, removal of conflicting regulatory structures, encouraging or constructing BPO (EPZ) locations, encourage standardization of regulatory work related procedures and processes in the BPO industry, reduction of tax rates, giving more incentives e.g. tax holidays and zero rating equipments imported for use in the BPO sector. From these findings of the study we can deduce that the most applicable tax incentives that can be used by the Kenya government to ensure growth of the BPO sector include; tax holidays, timing differences, investment allowances and tax credits, general tax reductions and non income tax based incentives.

The study found that the benefits of BPO's include; increase in focus on quality and customer needs was agreed with a mean of 4.714 and a standard deviation of 0.457, enabling cross selling and up selling capabilities was agreed with a mean of 4.571 and a standard deviation of 0.737, enabling and promoting self service practices was agreed with a mean of 4.29 and a standard deviation of 0.708, conceptualizing and developing proactive systems was agreed with a mean of 4.71 and a standard deviation of 0.457, optimizing business process management was agreed with a mean of 4.57 and a standard deviation 0.5, complying with the SLAs and other mandatory requirements was agreed with a mean of 4.286 and a standard deviation of 0.708, laying stress on automation for optimizing work processes was agreed with a mean of 4.167 and a standard deviation of 0.697. Tax on the individual incomes of employees working in these BPO was agreed with a mean of 4.24 and a standard deviation of 0.979, levying a significant amount of indirect taxes in the form of customs and excise was agreed with a mean of 3.24 and a standard deviation of 1.12, slow down of growth rate of the Kenya BPO sector was

agreed with a mean of 3.048 and a standard deviation of 1.48 and companies will be discouraged from outsourcing their processes to Kenya was agreed with a mean of 3.048 and a standard deviation of 1.622.

The factors affecting the growth of business process outsourcing include; tax system as a factor affecting the growth of business process outsourcing was agreed with a mean of 4.333 and a standard deviation of 0.979, operational environment of the company was agreed with a mean of 3.24 and a standard deviation of 1.22, firm size was agreed with a mean of 3.095 and a standard deviation of 0.85, information technology maturity was agreed with a mean of 3.38 and a standard deviation of 1.834.

5.3 Conclusion

This study concludes that the unclear Kenyan government tax structure affect BPO Companies growth and performance in Kenya in comparison with other destinations in the world. The tax factors that affect the growth and the performance of the BPOs Company include; transfer pricing laws, ambiguous tax, and lack of clarity in tax laws and unfriendly tax structure.

The study also revealed that the effects of tax regime on the BPO sector include; risk of losing the expanding outsourcing market to international firms, increase of cost of transacting in Kenya, slow down of growth rate of the Kenya BPO sector and companies will be discouraged from outsourcing their processes to Kenya. Other effects of tax regime on the BPO sector as indicated by the respondents were that; it makes cost of doing business expensive hence causing high unemployment rate. Since the BPO sector is still in its initial stages of growth unclear tax regimes cause firms to shutdown, since it becomes hard for BPO firms to get funding, tax regimes also reduce profit margins and leads to inability to price services competitively vis a vis other competing nations.

Government of Kenya can use the following methods to ensure continuous growth of the BPO sector; competitive or attractive tax regime, removal of conflicting regulatory structures, encouraging or constructing BPO (EPZ) locations, encourage standardization of regulatory work related procedures and processes in the BPO industry, reduction of tax rates, giving more incentives e.g. tax holidays and zero rating equipments imported for

use in the BPO sector. The most applicable tax incentives that can be used by the Kenya government to ensure growth of the BPO sector include; tax holidays, timing differences, investment allowances and tax credits, general tax reductions and non income tax based incentives.

The study also revealed that the benefits of BPO's include; increase in focus on quality and customer needs, enabling cross selling and up selling capabilities was agreed, enabling and promoting self service practices, conceptualizing and developing proactive systems, optimizing business process management, complying with the SLAs and other mandatory requirements, laying stress on automation for optimizing work processes, tax on the individual incomes of employees working in these BPO, levying a significant amount of indirect taxes in the form of customs and excise, slow down of growth rate of the Kenya BPO sector and companies will be discouraged from outsourcing their processes to Kenya. The factors affecting the growth of business process outsourcing include; tax system as a factor affecting the growth of business process outsourcing, operational environment of the company, firm size, information technology maturity.

5.4 Recommendation

This study recommends that the government should revise the transfer pricing laws, clarify its tax laws and get rid of ambiguous tax structure and instead ensure there is clarity in all tax laws. This study revealed that the factors that were affecting the growth and the performance of BPO companies included; ambiguous tax, lack of clarity in tax laws and unfriendly tax structure.

The government employ competitive or attractive tax regime. The study found that the tax regime was causing the risk of losing the expanding outsourcing market to international firms. These measures will help Kenya compete at the same platform as other BPO destinations which have various incentives in place from their Governments.

The government should also remove conflicting regulatory structures and encourage standardization of regulatory work related procedures. This study revealed that there were conflicting regulatory structures hindering the growth of BPOs.

The government should employ the following tax incentives to ensure growth of the BPO; tax holidays, timing differences, investment allowances and tax credits, general tax reductions and non income tax based incentives. This study revealed most applicable tax incentives that can be used by the Kenya government to ensure growth of the BPO sector include; tax holidays, timing differences, investment allowances and tax credits, general tax reductions and non income tax based incentives.

5.5 Suggestions for further studies

From the study and related conclusions, the researcher recommends further research in the area of factors influencing of growth of business process outsourcing in Kenya. As a part time student who needs to balance with studies with full time employment, the researcher was not be able to undertake an extensive and exhaustive research limiting the researcher to a small sample and less research time. The researcher was a self-sponsored student relying on savings to progress his studies and therefore there was limitation on financial resources and hence the researcher focused on the top management.

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APPENDICES

Appendix I:

Questionnaire

Section A: General information

1. Name of the BPO company: _____

2. What is your designation?

Finance manager

Assistant finance manager

3. What is the duration of time you have been working in the company?

Less than a year

Between 1 and 5 years

Between 6 and 10 years

Above 10 years

4. Please select your level of education

Certificate

Diploma

Undergraduate

Masters

Phd

Others (specify).....

Determinants of growth of business process outsourcing sector

5. Does the Kenyan government tax structure affect your company's growth and performance?

Yes []

No []

5 To what extent do the following factors affect the growth and the performance of your company?

	Very great extent	Great extent	Moderate extent	Less extent	No extent at all
Transfer pricing laws					
Ambiguous tax					
Lack of clarity in tax laws					
Unfriendly tax structure					

6. To what extent do you agree with the following as effects of tax regime on the BPO sector

	Very great extent	Great extent	Moderate extent	Less extent	No extent at all
risk of losing the expanding outsourcing market to international firms					
Increase of cost of transacting in Kenya					
Slow down of growth rate of the Kenya					

BPO sector					
Companies will be discouraged from outsourcing their processes to Kenya					

7. Apart from the ones named above what other effects does tax regime have on the growth and the performance of the BPO sector?

- i.
- ii.
- iii.

What can government do to ensure continuous growth of the BPO sector?

8. Please indicate the methods that the government of Kenya can use to ensure continuous growth of the BPO sector

- i.
- ii.
- iii.
- iv.

9. Please select on the most applicable tax incentives that can be used by the Kenya government in order to ensure growth of the BPO sector

- Tax holidays []
- Timing differences []
- Investment allowances and tax credits []
- General tax reductions []
- Non income tax based incentives []

Benefits of business process outsourcing to the outsourcing industry

10. To what extent do you agree with the following benefits of business process outsourcing to the outsourcing industry?

	Very great extent	Great extent	Moderate extent	Less extent	No extent at all
Increase in focus on quality and customer needs					
Enabling cross selling and up selling capabilities					
Enabling and promoting self service practices					
Conceptualizing and developing proactive systems					
Optimizing business process management					
Complying with the SLAs and other mandatory requirements					
Laying stress on automation for optimizing work processes					

11. To what extent do you agree with the following benefits of business process outsourcing to the government?

	Very great extent	Great extent	Moderate extent	Less extent	No extent at all

Tax on the individual incomes of employees working in these BPO					
levying a significant amount of indirect taxes in the form of customs and excise					
Slow down of growth rate of the Kenya BPO sector					
Companies will be discouraged from outsourcing their processes to Kenya					

12. To what extent do the following factors affect the growth of business process outsourcing in your in company?

	Very great extent	Great extent	Moderate extent	Less extent	No extent at all
Tax system					
Operation environment of the company					
Firm size					
Information technology maturity					

Appendix II:

BPO companies in Kenya

1. Call centre solutions East Africa Ltd
2. Edamars Enterprises
3. Grephys outsourcing Ltd
4. Lynxbits Limited
5. Ken – tech data Ltd
6. Verve K.O Ltd
7. Technocate BPO & research
8. Kencall EPZ Limited
9. Horizon Contact Centers
10. Call Centre Africa Limited
11. Quick Data BPO Limited
12. Direct Channel Limited (Simba Tech Limited)

Appendix III:

Raw data