

**FACTORS AFFECTING THE GROWTH OF BUSINESS PROCESS  
OUTSOURCING FIRMS IN KENYA**

**BY**

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## DECLARATION

This project is my original work and has not been presented for the award of a degree in this University or any other Institution of higher learning for examination.

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**D61/79971/2012**

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

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## **DEDICATION**

This research is dedicated to my husband who has been a source of inspiration and more so, to my parents who never got tired of talking to me on the value of education even long after I became financially independent.

## **ACKNOWLEDGEMENTS**

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## TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>iv</b>
<b>LIST OF FIGURES</b> .....	<b>vii</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>ABBREVIATIONS AND ACRONYM</b> .....	<b>ix</b>
<b>ABSTRACT</b> .....	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study .....	1
1.1.1 Concept of Strategy .....	3
1.1.2 Business Process Outsourcing Strategy.....	4
1.1.3 Factors Affecting the Growth of Business Process Outsourcing Firms .....	5
1.2 Research Problem .....	8
1.3 Research Objectives .....	11
1.4 Value of the Study .....	11
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>13</b>
2.1 Introduction .....	13
2.2 Theoretical Foundation.....	13
2.2.1 Resource-Based View .....	13
2.2.2 Dynamic capabilities theory .....	15
2.3 Concept of Business Process Outsourcing .....	16
2.4 Factors Affecting Growth of Business Process Outsourcing .....	18
2.6 Summary.....	23
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	<b>24</b>
3.1 Introduction .....	24
3.2 Research Design .....	24
3.3 Population of the Study .....	24
3.4 Data Collection .....	25
3.5 Data Analysis.....	26

<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION .....</b>	<b>27</b>
4.1 Introduction .....	27
4.2 General Information .....	27
4.2.1 Gender of Respondent .....	27
4.2.2. Respondents age bracket .....	28
4.2.3 Highest academic qualification .....	29
4.2.4 Respondent designation.....	30
4.2.5 Respondents opinion on the duration of operation of their Company.....	30
4.2.6 Respondents opinion on the services offered to the clients by their Company ...	32
4.3. Factors Affecting Growth of the Business Process Outsourcing Firms in Kenya ....	33
4.3.1. Business Process Outsourcing.....	33
4.3.2. Need Identification and Business Process Outsourcing .....	34
4.3.3. Vendor’s Expertise and Business Process Outsourcing .....	36
4.3.4. Training and development and Business Process Outsourcing.....	39
4.3.5 Competence needs .....	40
4.3.6. Legal & Regulatory Framework and Business Process Outsourcing.....	41
4.4 Discussion of Findings .....	44
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....</b>	<b>46</b>
5.1 Introduction .....	46
5.2 Summary.....	46
5.3. Conclusion .....	47
5.4. Recommendations .....	48
5.5 Areas of further research .....	48
5.6 Limitations of the Study .....	49
5.7 Implication of the study on policy, theory and practice .....	50
<b>REFERENCES .....</b>	<b>51</b>
<b>APPENDICES.....</b>	<b>56</b>
<b>APPENDIX I: QUESTIONNAIRE.....</b>	<b>56</b>
<b>APPENDIX II: LIST OF OUTSOURCING FIRMS IN KENYA.....</b>	<b>63</b>

## LIST OF FIGURES

<b>Figure 4.1:</b> Gender of Respondents .....	28
<b>Figure 4.2:</b> Respondents age bracket.....	28
<b>Figure 4.3:</b> Respondents academic qualification.....	29
<b>Figure 4.4:</b> Respondent designation .....	30
<b>Figure 4.5:</b> Respondents opinion on the duration of operation of their Company .....	31
<b>Figure 4.6:</b> Respondents opinion on the services offered to the clients .....	32

## LIST OF TABLES

<b>Table 4.1:</b> Business Process Outsourcing .....	33
<b>Table 4.2:</b> Need Identification and Business Process Outsourcing .....	35
<b>Table 4.3:</b> Vendor's Expertise and Business Process Outsourcing .....	37
<b>Table 4.4:</b> Training and development and Business Process Outsourcing .....	39
<b>Table 4.5:</b> Competence needs .....	40
<b>Table 4.6:</b> Legal & Regulatory Framework and Business Process Outsourcing.....	42



## **ABBREVIATIONS AND ACRONYM**

**BPO:** Business Process Outsourcing

**GDP:** Gross Domestic Product

**ICT:** Information Communication Technology

**ITO:** Information Technology Outsourcing

**KPO:** Knowledge Process Outsourcing

## ABSTRACT

The purpose of this study was to examine factors affecting the growth of business process outsourcing firms strategies in Kenya. The rapid growth of outsourcing has transformed the way public entities are managing their operations in providing services to the Kenyan citizen. This has brought considerable benefits as well as challenges. Outsourcing has been considered as one of the methods that public institutions utilize to strengthen their core competencies to ensure cost-effective management of resources. Outsourcing involves reviewing of functions and processes within an organization with a view of restructuring to enable an organization to focus on its key competencies. The methodology used in this study was a cross sectional survey. The population in this study included all the Business Process Outsourcing firms in Nairobi. There are 50 registered companies operational in Nairobi area. Data collection involved the collection of raw data from the target population or the study units. In order to come up with effective data, a certain procedure was followed to ensure that all the relevant data was received. Both primary and secondary data were collected. Questionnaires and interviews were used to collect primary data, while secondary data was collected from document or records review. Quantitative data was analyzed using descriptive statistics including percentages, frequencies, means and standard deviation. Qualitative data was analyzed by the use of content data analysis, where the factors affecting the growth of Business Process Outsourcing firms were grouped into related themes. The study found out that on the issue of business outsourcing adoption of new technology was successfully implemented. In addition the study found out that the need that affected business process outsourcing was, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved. The study also found that the Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing as one of the six pillars to drive the country to a medium developed economy facilitates growth of the Business Process Outsourcing industry affect the legal and regulatory framework on business process outsourcing. The findings imply that business process outsourcing firms should invest more in technology as well as effective adequate training on the relevant stakeholders of the organization who are the pillars of the organization as well as adhere to the legal and regulation framework to positively influence growth of the businesses.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Business process outsourcing is an arrangement where one company (the supplier) provides services on behalf of another company (the buyer) that could be or has been formerly provided in-house, (Tas and Sunder, 2004). BPO is often divided into two categories: back office outsourcing, which includes internal business functions such as billing or purchasing, and front office outsourcing that include customer-related services such as marketing or technical support. BPO that is contracted outside a company's own country is sometimes called offshore outsourcing. BPO that is contracted to a company's neighboring country is sometimes called near shore outsourcing, and BPO that is contracted within the company's own country is sometimes called onshore outsourcing, (Tas, J. and Sunder, S. 2004).

The origin of outsourcing can be traced back to barter trade. When societies first formed, the people in those communities began to deal in services, goods and other items they could trade amongst themselves. Outsourcing started first with the production of tools, food and household appliances, and a worker outsourced an activity to another worker, (Mullin, 1996). Outsourcing can be distinguished in three different categories. In Business Process Outsourcing (BPO), a particular process task is outsourced. This kind of outsourcing work could be either front office or back office. Typical front office work is customer related work like marketing and technical support via the telephone. Examples of BPO are call centers, data entry, marketing, web designing and development, proof reading and editing,

book keeping and business consultancy (Rose, 2011). In Knowledge Process Outsourcing (KPO), work is performed which needs higher levels of involvement from the worker. More advanced levels of research, analytical and technical skills are needed. Examples of KPO are pharmaceutical research, animation, legal services, content writing and development. Last but not least Information Technology Outsourcing (ITO). ITO is outsourcing of computer or Internet related work, such as programming Typical countries for ITO are India and China (Rose, 2011).

During recent year's new theories on outsourcing have emerged. All theories, however, seek to solve a well-known problem within economic theory, the issue on division of labor and specialization. Reasons for outsourcing vary and the conceptual frameworks, which have been used to explain the practice and degree of success obtained, include Resource-based Theory, Dynamic capabilities theory and Value chain analysis approach. As might be expected, none of these approaches explains all the behavior observed in practice in outsourcing contracts, although most explain some of the behavior and help predict the likely success of some outsourcing arrangements (Urquhart 2002).

### **1.1.1 Concept of Strategy**

The crafting of a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and pleasing customers, competing successfully, conducting operations and improving the company's financial and market performance (Johnson & Scholes, 2008). A Firm's strategy is managements' action plan for running the business and conducting operations (Thompson, 2007). Strategy can be defined as the balance of actions and choices between internal capabilities and external environment of an organization. Accordingly, strategy can be seen as a plan, play, pattern, position and perspective (Mintzberg et al, 2009).

According to Bateman and Zeithman (1993), a strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy an organization implements should be directed toward building strengths in areas that satisfy the wants and needs of consumers and other key actors in the organizations' external environment. It therefore forms a comprehensive modern plan that states how the organization will achieve its mission and objectives, maximizes competitive advantage and minimizes competitive disadvantage.

There are different forms of strategy (Johnson et al., 2008). Corporate level strategy is concerned with the overall scope of an organization and how value will be added to the different parts (business units) of the organization. This could include issues of geographical coverage, diversity of products/services of business units, and how resources are to be allocated between different parts of the organizations. The second level is the

business level strategy, which is about how to compete successfully in particular markets or how to provide best value services in the public services. This concerns which products or services should be developed in which markets and how advantage over competitors can be achieved in order to realize the objectives of the organization. The third level of strategy is at the operating end of the organization. These strategies are called operational strategies, which are concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. Finally, the political strategy is designed to accommodate new balance of power among the external forces and limit pressure for organizational change.

### **1.1.2 Business Process Outsourcing Strategy**

Organizations use business process outsourcing as a strategic initiative. Business process outsourcing is a business strategy that moves some of an organization processes, functions and decision responsibility from within the organizational to an external service provider. This involves negotiating contract agreements with the service provider who takes the responsibility for people management, production process, quality assurance, customer service and key asset management of the function. The process can greatly reduce fixed overhead costs of an organization (Scarborough, Wilson & Zimmerer, 2009).

Armstrong (1999) advances business process outsourcing (BPO) can be a permanent or temporary arrangement to reduce costs, improve quality and customer service, bridge the gap in staffing, and to learn better quality techniques. When looking to outsource opportunities, an organization should look at potential areas and each component within

that area to determine if part or all of that function should be outsourced. What to outsource differs from organization to organization. Common operational functions that get outsourced are; Human resources, legal, accounting and auditing, cleaning services, security services, Customer call centers, Facility Management, Information and Technology including maintenance of the IT system equipment, Transport, Order Fulfillment, Market Research and advertising.

### **1.1.3 Factors Affecting the Growth of Business Process Outsourcing Firms**

According to Elmuti (2003), the market for the outsourcing provider is growing rapidly because outsourcing is the way for organization to generate value. With an outsourcing strategy, an organization can gain a benefit of cost reduction. Oza and Hill (2007) stated that cost reduction is the reason why most organizations have outsourced their service, including manufacturing, payroll, human resource activities and others, to countries like India and China, because India and China can provide a high quality of labor pool that lead to a high quality of service with a low cost.

Some authors suggest that there are certain factors that organizations should consider before deciding to outsource, including activities that involve disproportionate time management, activities that are not associated with other work activities, and activities that require a high skill of expertise (Heywood, 2001).. Specifically, organizations should ask two fundamental questions: (1) what will be the impact of outsourcing the activities on the organization? and (2) how will it impact on the activities and employees that are not outsourced?

KPMG International Research found that many problems can occur when organisations introduce outsourcing processes. The research found that 52 percent of the respondents said outsourcing providers are lacking in knowledge, 47 percent of respondents said outsourcing providers are non-responsive, and 35 percent of respondents said outsourcing providers have low performance standards. Therefore, not every organization will have success when outsourcing their HR activities.

Robinson and Kalakota (2004) comment that there are many hidden costs behind the outsourcing agreement which organizations might not be able to control. These include expenditure for upgrading the system due to the rapid improvement in computer reliability and functionality, expenditure for training costs due to a lack of skilled employees, and the expenditure for incomplete projects due to the inability of some outsourcing providers to effectively transfer their knowledge.

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



Kenya has not been left behind. Business operation in Kenya is remodeling itself to overcome world economic pressures and join a tough competition with developed countries. A rapid improvement in technology has played a key role in making outsourcing business in Kenya a realistic and profitable affair to many companies. Outsourcing in Kenya has been taken as key strategy to reinvent their business operations, (Waema 2009).

The government in Kenya has invoked detailed plans to support the growth of business process outsourcing (BPO) in its economy. In Kenya, BPO is one of the six pillars of economic growth in the Vision 2030. In 2007, the ICT Board was established with the mandate of making Kenya the preferred destination for outsourcing in Africa, and a top-10 global ICT hub. The government wants to create 7,500 direct outsourcing jobs by 2012. Moreover, to do so, public investment is planned to support infrastructure, education and business incentives.

According to the Kenya Business Process Outsourcing Sector, The government is pumping millions of dollars into improving the country's outdated telecom system in an effort to capitalize on Kenya's large pool of English-speaking graduates. Eventually it wants Kenya to be as well-known for its call centers as its lions, tea, and coffee. In December, 2007, the Kenyan government signed an agreement with French-US telecom group Alcatel-Lucent for a fiber-optic cable linking the Kenyan port of Mombasa with the United Arab Emirates. The cable was meant to connect East Africa to the rest of the world's Internet capacity and replace the slow and costly satellite links that act as a brake on the country's fast developing industry in business process outsourcing (Rahul, 2010).

Kenya has been ranked by the Commonwealth Business Council (CBC), which conducted an outsourcing potential study on 15 African countries, released in early 2009. Kenya ranks tenth overall according to the CBC, following countries like Egypt, South Africa, Ghana, Botswana and Namibia. The country's business environment scores are its lowest, with legislative risk and high tax rates holding it back.

## **1.2 Research Problem**

Business process outsourcing has been a rising trend in outsourcing since the end of 1970s. Most common type of business process outsourcing, information technology outsourcing, started to become more popular in the 1980s. In the same time information and computer systems become more complex and new possibilities for companies to seek competitive advantage were found (Mierau, 2007). Outsourcing is a fast-growing aspect of the world economy with a worldwide spending of about US\$ 3.7 trillion in 2001 (Clott, 2004). Business Process Outsourcing (BPO) has been suggested as one of the biggest area of growth in the outsourcing market. Nevertheless, many organizations are still reluctant to outsource business processes that are part of their core business (Kakabadse and Kakabadse, 2002). Business outsourcing firms in Kenya are facing a new reality with the evolving behaviours of customers and partners who demand new and customized services.

Additionally, pressures to deliver improved transparency and risk management, reduce costs, and successfully navigate an ever-changing and consolidated financial ecosystem is adding to the complexity. As resources in the services industry continue to become even morestrapped, institutions are turning to outsourcing as a way to reduce costs. Outsourcing

is a growing phenomenon driven by cost reduction, reduced time cycle and access to highly skilled professionals. Although there are good reasons to outsource, a number of potential obstacles and problems associated with outsourcing are also recognized. The business outsourcing industry is currently facing stiff competition from other emerging business outsourcing firms in terms of performance and service delivery to the intended customers in the society.

Price Water Coopers (2000) conducted a survey in the United States among America's fastest growing companies, the conclusion arrived at was that businesses that outsource were growing faster, were larger and made more profits than those that did not. The survey further revealed that, of the companies that outsourced, 70 percent claimed to save money and 25 percent had improved focus on core business. The goals of outsourcing often include reducing labor and overhead costs, maximizing profits, dominating a market, and gaining a competitive advantage. While this strategy looks quite promising, it is surprising to find that "more than one-fourth of outsourcing deals fail in the first year. According to Lacity and Willcocks (1998), success rate of IT outsourcing is only 56 per cent. Aron and Sing (2005) state that half of the organizations that shifted processes to external providers failed to generate the financial benefits they expected. Pricewater House Coopers (2005), noted that companies are outsourcing more and more while enjoying the benefits less and less and this was attributed to firms overestimating the profitability of their outsourcing ventures by not taking into account very influential transaction costs which decrease or even outweigh the benefits.

Locally, much has been researched on business process outsourcing. Gakii (2010) carried a case study on the challenges of implementing outsourcing in East African Breweries Kenya Ltd. She found out that the organization needed to develop a clear criterion on choice of service providers. Mwando (2010) carried out a study on the outsourcing strategy at British Airways in Kenya. He recommended that the organization needed to train outsourced staff before they are engaged to work in order to enable them integrate with British Airways culture and systems instead of leaving them to outsourced agency. Kaur (2001) carried out a survey of the outsourcing of Human Resources Management Services among manufacturing firms in Nairobi, Kenya. Among the firms studied then, outsourcing strategy was new and minimal. The benefits reported then were few.

Buya (2010) carried out a research on the implementation of the outsourcing strategy in the cement manufacturing industry in Kenya. He established that the strategy had assisted in lowering the operation cost of the companies. Bosire (2010) carried a survey on impact of outsourcing on lead-time and customer service. This survey involved supermarket in Kenya. The study found a positive correlation between outsourcing and lead-time, but cited many mistakes in implementing the strategy. Oyugi (2010) carried out a study on the effect of outsourcing on corporate performance at BAT Kenya LTD. Like Mwando, she observed the need to train outsourced staff before they are engaged to work in order to enable them integrate with BAT Kenya LTD culture and systems.

Based on the reviews, the studies did not capture factors affecting the growth of the Business Process Outsourcing with a focus on outsourcing firms. This study therefore sought to fill this research gap by answering the following research question; what factors affect the growth of the Business Process Outsourcing firms in Kenya?

### **1.3 Research Objectives**

The objective of the study was to examine factors affecting the growth of the Business Process Outsourcing firms in Kenya.

### **1.4 Value of the Study**

The findings and recommendations of this study is benefiting the outsourcing sector as a whole in indentifying where the weakness lies in embracing BPO. As a result, they will be expected to work towards adapting to BPO strategies to enhance their survival in the market.

This study benefits people in government to seek ways in which they can improve the economic environment mostly through government legislation to provide conducive environment that will enhance the growth of BPO in the outsourcing sector and the country as a whole.

Academic scholars and researchers would be able to borrow from the findings of this research to support literary citations as well as develop themes for further research. Specifically, the study would make theoretical, practical and methodological contributions. The findings would contribute to professional extension of existing knowledge in business processing outsourcing by helping to understand the current challenges for adopting these strategies and their effects on environmental response in various financial institutions in general.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

A literature review discusses published information in a particular subject area, and sometimes information in a particular subject area within a certain time, (Schwegler, 2000). Therefore, this chapter involve the systematic identification, location and analysis of documents containing information related factors affecting the growth of BPO firms in Kenya.

#### **2.2 Theoretical Foundation**

This section reviews the theoretical framework on which the concept of business process outsourcing is built. Specifically, the section covers the Resource-based Theory, Dynamic capabilities theory and Value chain analysis approach.

##### **2.2.1 Resource-Based View**

According to Barney (1991) the resource based view is based on the concept of productive resources. In this strategic theory, the firm is viewed as a collection of physical and intangible resources that enable it to compete with other firms. It makes the assumptions of resource heterogeneity and resource immobility. Competitive advantage is gained through resources that are valuable, rare, imperfectly imitable, and without strategically equivalent substitutes (Gilley, McGee and Rasheed, 2004).

The resource based view does not address the issue of firm boundaries directly. Silverman (1998) posits that the resource based view implies that a firm should possess all valuable resources within its boundaries, and therefore has underemphasized a firm's seeking competitive advantage through outsourcing rather than by expanding organizational boundaries. However, since the theory does not explicitly make this suggestion, it can be easily extended to include outsourcing. According to Gilley, McGee & Rasheed, (2004), on the antecedents to outsourcing, studies using this theory assume that a firm is not able to internalize more than a few resources. The firm then decides between all the resources they need by comparing the attributes of the resources with each other. Resources with greater value and rareness and lesser imitability and substitutability are internalized while the other resources are outsourced. However, the resource based view may also guide the decision even in a situation in which a firm does have the luxury of internalizing all resources. The decision to outsource is a decision to replace a resource that the firm possesses with a resource in the external environment (Conner, 1991).

The resource acquired should therefore be of greater value and rareness and of lesser imitability and substitutability than the resource previously possessed by the firm. Hence, a comparison of the resources of the firm with the resources of vendor firms is more crucial in deciding which resources to outsource than comparing the firms resources to each other (Beaumont and Sohal, 2004) From a purely resource-based perspective, any resource that provides a greater competitive advantage than a substitute resource that can potentially be acquired through outsourcing should be internalized, while other resources should be outsourced (Al-Qirim, 2003).



The resource based view also makes another prediction from its perspective as a unique combination of resources: a resource may be more productive in combination with certain other resources (Conner, 1991). Therefore, a firm has a reason to internalize when an equivalent resource is available in the environment. If the resource can create greater value in combination with the firms other resources than if it was outsourced, the resource should be internalized.

### **2.2.2 Dynamic capabilities theory**

Dynamic capabilities have been defined as “the capacity to renew competencies so as to achieve congruence with the changing business environment” by “adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competencies” (Teece et al., 1997). More recently, Helfat et al. (2007) have defined a dynamic capability as “the capacity of an organization to purposefully create, extend or modify its resource base”. It is this definition that we have adopted to facilitate the development of our argument. In line with Helfat et al. (2007) we use the term „resource“ in its broad sense (Barney, 1991), and hence it includes activities, capabilities, etc., which allow the firm to generate rents. Danneels (2002) argues that it is essential for the RBV to have a dynamic perspective, so as to understand how firms evolve over time, through their deployment and acquisition of resources, and because firms must continuously renew and reconfigure themselves if they are to survive (Zahra et al., 2006). Dynamic capabilities are built rather than bought in the market (Makadok, 2001).

This means that dynamic capabilities are viewed to be essentially path dependent (Dierickx and Cool, 1989), as they are shaped by the decisions the firm has made throughout its history, and the stock of assets that it holds (Eisenhardt and Martin, 2000; Zollo and Winter, 2002). Path dependency “not only defines what choices are open to the firm today, but...also puts bounds around what its internal repertoire is likely to be in the future” (Teece et al., 1997). Path dependency could be grounded in knowledge, resources familiar to the firm (Monteverde and Teece, 1982), or influenced by the social and collective nature of learning (Teece et al., 1997). This suggests that learning plays a significant role in the creation and development of dynamic capabilities.

### **2.3 Concept of Business Process Outsourcing**

Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace. According to the Outsourcing Institute, 2001, in simple terms, ‘outsourcing’ can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. An organization out-sources major, non-core functions to specialized, efficient service providers by a management strategy.

When the service industry came into being, they started to do outsourcing and gave their jobs to outside contractors. The history of outsourcing shows that outsourcing started with manufacturing of items such as apparel, toys and shoes. Later on high-tech items such as consumer goods and electronics were starting to be outsourced and in fact pricing through outsourcing was extremely competitive. In search of lower costs, many manufacturers

started to look for offshore assistance, and began to employ offshore companies to do the work for them. As transportation means increased so did offshore manufacturing jobs, since the goods that had been manufactured offshore could now travel back at a faster pace and be sold in the retail and department stores. As the lower income countries improved in their skills, and the people became more educated, outsourcing too became more important and more cost effective. In the 1970s in the United States computer companies outsourced their contracts and this has continued ever since. Billing, processing and payrolls have also been outsourced where necessary. Insurance companies covering the cost of medications and medical clinics who administer your records use claim processing centers that are offshore in such places as India, the Philippines or Russia, (Kearney, 2009).

An important feature of all the prior research studies documented in the preceding section is the exclusive focus on the Western developed economies. Thus, this study, with its primary focus on factors affecting the growth of the Business Process Outsourcing firms in a developing country (Kenya) is an important extension of the outsourcing research and valuable addition to literature. The term “value chain” was originally introduced in Michael Porter's book “Competitive Advantage - Creating and Sustaining Superior Performance” (Porter, 1985). The value chain analysis is based on Michael Porter’s generic value chain model (Porter, 2001), developed in 1985 and used to explore Porter's model of competitive advantages through differentiation or cost leadership strategy. Porter always warns of the danger of being “stuck in the middle” (Porter 1996). It should be noted, however, that other authors like Mathur (1988) see exactly this “stuck in the middle” as a possibility for competitive advantage.

The method allows the firm to understand which parts of its operations create value and which do not (Ketchen and Hult, 2007). The aim is to cut the entire complicated supply chain of a company into smaller units. Hergert and Morris (1989) state that “the fundamental notion in the value chain analysis is that a product gains value as it passes through the vertical stream of production within the firm. When created value exceeds costs a profit is generated”. The model was originally introduced for companies in the manufacturing industry (Armistead and Clark, 1993, Ketchen and Hult 2007), which has a significant impact on service firms. The value chain is segmented into primary and support activities.

#### **2.4 Factors Affecting Growth of Business Process Outsourcing**

Because of resource limitations, few firms have the ability to apply world-class resources to all areas of competition. Thus, in order to gain competitive advantage they must select areas in which they will concentrate their resources (Hamel & Prahalad, 1994). By outsourcing to specialist organizations services not generated by core competences, companies can see an improvement in their organizational performance.

Need Identification: Demand for business process outsourcing services is as a result of organizations identifying outsourcing needs. According to Randall (1993), successful outsourcing requires identification of a strong need for outsourcing. However, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved. According to Power (2006), defining the needs of an outsourcing project

represents a seminal step in the outsourcing life cycle, as it is the statement of needs that gets transferred to the vendor, decides the outcomes of the efforts and sets the stage for evaluation of the outsourcing project. Market forces are somehow driving firms to outsource everything but the core business (Gupta and Gupta, 1992). And outsourcing makes it easier for these firms to focus on their basic competences (Hayes, Hunton and Reck, 2000). Outsourcing liberates line managers who do not have to coordinate with a large outsourced activity department, thus simplifying the organization. Outsourcing additionally provides a large degree of flexibility in the utilization of resources and makes it easier to face business level volatility, as the provider is left to deal with fluctuations in outsourced activity workloads (Jurison, 1995). The provider can access more advanced technologies and count on more motivated staff and better management systems in order to be able to achieve a better service coordination or control, or, simply, is more strongly committed than the internal staff to make the alliance with the client work properly (Clark, Zmud and Mc Cray, 1995).

Outsourcing very often serves to provide routine tasks which are very time-consuming in management (Lacity & Hirschheim, 1993). Also, if the outsourced function is seen as something difficult to manage, often regarded by the top management as a “headache” outsourcing can remove or minimize a function that is considered clearly problematic (Jurison, 1995). Outsourcing brings client firms advantages related to technology (Jurison, 1995), as these business organizations can have access to specialized, state of- the-art technology which is supposedly supplied to them by the provider.

Project description by clients: Since outsourcing represents a long term relationship with another firm, it is critical to define not only the desired results but also the type of relationship that can best serve the needs of the client and assist the provider in meeting those needs (Glagola, 2001). Defining requirements in clear, complete and measurable terms is one of the most difficult and most important parts of outsourcing process. For large projects Request for Proposal (RFP) outlines the requirements; for smaller less formal projects case studies or request for information (RFI) are typically used.

Expertise of BPO firms: Soliciting, evaluating and choosing the vendor for outsourcing needs provides a structured framework to guide the organization through critical vendor selection and contracting activities. Choosing the right vendor is much like choosing a good partner; the chances are that if the organization make the right decision from the onset it will have a potentially lasting relationship, while choosing the wrong vendor could damage and thwart a well-intentioned outsourcing project (Power, 2006). Evaluation criteria, selection process and the scoring system must be set by the cross functional project team. Only then can the firm ensure that confidentiality, accountability and objectivity will be maintained throughout the selection process. Vendor response should include; a company profile including principal owners and the company's principal business, corporate goals, office location and service centers, financial statement reflecting stability and capability and previous experience related to the requirements of the project.

Randall (1993) is of the opinion that credibility of suppliers is critical for the success of outsourcing process. The credibility is determined by experience in required services, proven track record on implementation and operating similar contracts, financial strength and a multiyear commitment to the contract.

Contact negotiation skills: Service level agreements (SLAs) are put in place detailing process maps, responsibilities and implementation of key performance indicators. Structures and reporting lines are defined and implemented. Besides, in an outsourcing agreement, regulatory controls such as legal documents policies, form systems, standards and procedures may establish the relationship between the two parties and specify boundaries (Teng and Jaramillo, 2005) yet they represent only incomplete contracting and hence cannot be exhaustive. Interpersonal and informal infrastructures are required to solve ambiguities and make the outcome more predictable. Social or informal control is based on norms, shared values, internalization and beliefs (Eisenhardt, 1985). According to Power (2006), the SLAs should be clearly stated, easy to understand, easy to measure and based on firm's thorough benchmarking analysis.

Relationship and risk management skills: According to Elmuti (2003), a good partner is important ingredient for success. Essentially in Outsourcing agreements, the relationship between the institutions and their partners are based on trust and on contracts. So it is essential that the right partners are selected based on criteria like credibility, expertise, and reliability. Barthelemy, (2003) observes that right partners will eventually lead to closer ties and relationships. Elmuti, (2003) further emphasizes the importance to get the right

people involved in managing outsourcing efforts and add that adequate training, infrastructure and facilities are essential. Benchmarking plays a key role in renegotiations, since clients need access to industry performance parameters in order to make a case with outsourcing vendor (Chase et al., 2010). Randall, (1993) recommend that for the outsourcing project to work there is need to have a senior manager who is committed to act as sponsor of the project and guide it from idea to reality. However, McCutcheon (1995) agree with Lutta (2003) and warns that if not well implemented, outsourcing could lead to an abdication situation instead of desired delegation of non-core activities to supplier-partner.

Legal framework: Outsourcing follows the procurement process as governed by the Public Procurement and Disposal Act (2005) and the Public Procurement and Disposal Regulation (2006). Procedures laid down in the Act and the Regulations are adhered to when sourcing for a service provider for outsourcing initiative. A legal contract must be signed between the two parties, public entity and the service provider clearly indicating the obligations and responsibilities of each party. The Kenyan government's strategic plan "vision 2030" has singled out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy. In the short run, the government aims at achieving a top three position as a Business Process Outsourcing destination in Africa. The government has taken key steps to ensure targets are met; budgetary allocation, setting up of complementary institutions like the Information Communication and Technology Board (ICT Board) that will ensure facilitation and implementation of desired targets.



## **2.6 Summary**

According to the Kenya National Bureau of Statistics (2009), on the leading economic indicators in Kenya, Business Process Outsourcing is here with us and it is the way to go for Kenya including the local firms. Many benefits come with outsourcing. The value proposition that companies look to achieve from outsourcing activity can be viewed from a number of different aspects. From the view of control and automation services on the plant floor, Automation Research Corporation (ARC,1998) defines the value proposition (potential benefits) of outsourcing to an organization as being expressed in four fundamental business concepts which include focus on core competencies, gain access to world class expertise, improve staffing flexibility, lower total cost of ownership.

There are factors that have contributed to the growth of BPO firms in Kenya. This study therefore endeavor to find out to what extent factors like need identification, project description, Expertise of the Business Process Outsourcing Firms, Contract Negotiation Skills, Relationship & Risk Management Skills and The Legal Framework have contributed to the growth of BPO firm and establish what more needs to be done in order for BPO to be fully embraced by these institutions and benefit from it.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter clearly outlines the methods, which were used in carrying out the whole research exercises. It states the methods that were used in data collection, getting the target population, sampling techniques, tools for data collection and the research design.

#### **3.2 Research Design**

A cross sectional survey was used to carry out the research. According to Orodha and Kombo, (2002) it can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues.

This type of design is the most ideal in that the intentions of the research will be to describe phenomena of Business Process Outsourcing firms in Kenya. As a quantitative study, the research sought to find out the factors affecting the growth of the Business Process Outsourcing firms in Kenya and what can be done to reduce the effect of these factors.

#### **3.3 Population of the Study**

According to Kombo and Tromp (2006), population is the larger group from which a sample is taken and it should capture variability to allow more reliability to the study. Research population is also the aggregate of the unit of study and is the population affected by the problem under investigation and therefore in a position to give information regarding the said problem.

The population in this study included all the Business Process Outsourcing firms in Nairobi. There are 50 registered companies operational in Nairobi area. The primary data was from the target population, while the secondary data was collected from previous research findings.

### **3.4 Data Collection**

Data collection involved the collection of raw data from the target population or the study units. The respondents were 25 senior managers and 25 junior managers. In order to come up with effective data, a certain procedure was followed to ensure that all the relevant data was received. Both primary and secondary data were collected. Questionnaires and interviews were used to collect primary data, while secondary data was collected from document or records review (Franker, 2006).

The questionnaires comprised both structured, closed ended questions and unstructured open-ended questions. Face to face verbal interviews were carried out and interview guides consisting of leading contents/questions were employed. This enabled the researcher to gather all data required for research. Due to time constraints the researcher engaged a research assistant to assist in data collection. The respondents filled in the questionnaires as the researcher or assistant waited in some cases. This enabled the respondent to access assistance where need arose, it also helped to reduce the instances of non-response by ensuring the targeted population was reached and safe on time. Where necessary, the questionnaires were left and picked later in order to ensure a high proportion of usable responses. This also allowed the respondents to have enough time to read, understand and respond to the questions.

### **3.5 Data Analysis**

Data obtained from the field in raw form is difficult to interpret. Such data must be cleaned, coded, keypunched into a computer and analyzed. It is the result of such analysis that researchers are able to make sense of the data, Mugenda & Mugenda, (2003). The study performed factor analysis to help analyze the findings. In order to effectively analyze the primary quantitative data, descriptive statistics including percentages, frequencies, means and standard deviation were used. Qualitative data was analyzed by the use of content data analysis, where the factors affecting the growth of Business Process Outsourcing firms were grouped into related themes.

Presentation of quantitative data was done using percentages and frequencies in tables. This was also presented using figures and graphs. Presentation of qualitative data was done using a prose form, involving explanation of the factors on the growth of Business Process Outsourcing firms from the questionnaires as indicated by the respondents.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

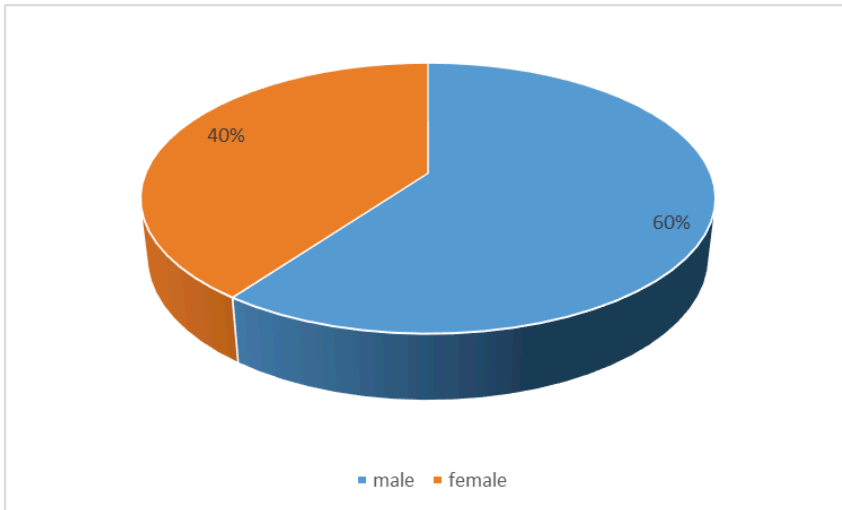
This chapter presents the data on factors affecting the growth of business process outsourcing firms strategies in kenya. The research was conducted on sample size of 50 respondents out of which 40 respondents completed and returned the questionnaires duly filled in making a response rate of 80%. The study made use of frequencies (absolute and relative) on single response questions. The analysed data is presented in tables, graphs and charts as appropriate with explanations being given in prose.

#### **4.2 General Information**

The study sought to ascertain the background information of the respondents involved in the study which included; gender, age, level of education, name of their company, designation, duration of operation of the company and the services offered by the company. The background information points at the respondents' suitability in answering the questions on factors affecting the growth of business process outsourcing firms strategies in kenya.

##### **4.2.1 Gender of Respondents**

The respondents were requested to indicate their gender. The findings are as presented in Figure 4.1.



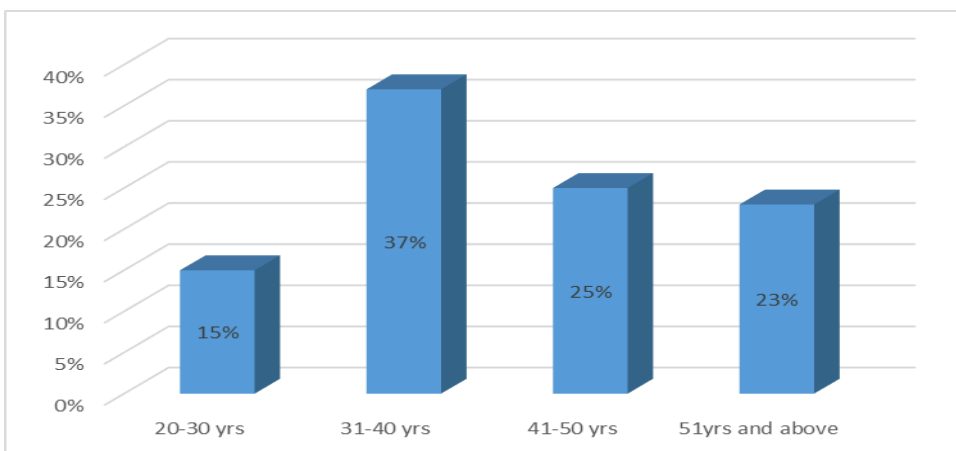
**Figure 4.1: Respondents Gender**

**Source: Primary Data 2014**

The study established that 60% of the respondents were male while 40% were female. This implies that majority of the respondents were males.

**4.2.2.Respondents age bracket**

Respondents were requested to indicate their age bracket. The findings were indicated in Figure 4.2.



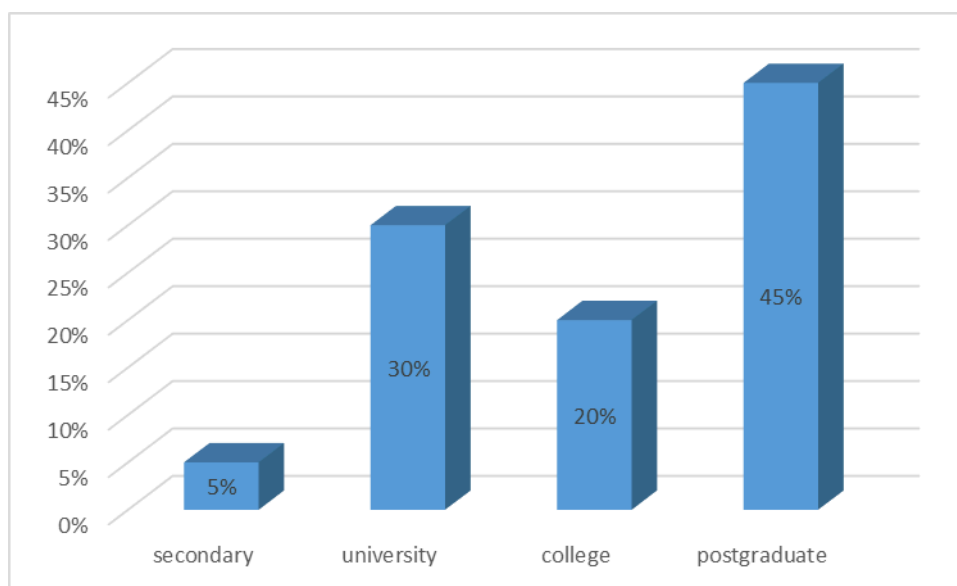
**Figure 4.2 Respondents age bracket**

**Source: Primary Data 2014**

Based on the findings, 37% of the respondents were between ages 31-40 years, 25% were between 41-50 years, 23% were above 51 years and 15% were between 20-30 years. This depicts that the age bracket with the highest number of respondents was between 31-40 years.

#### 4.2.3 Highest academic qualification

The study asked the respondents to indicate their level of education. Findings are as shown in Figure 4.3



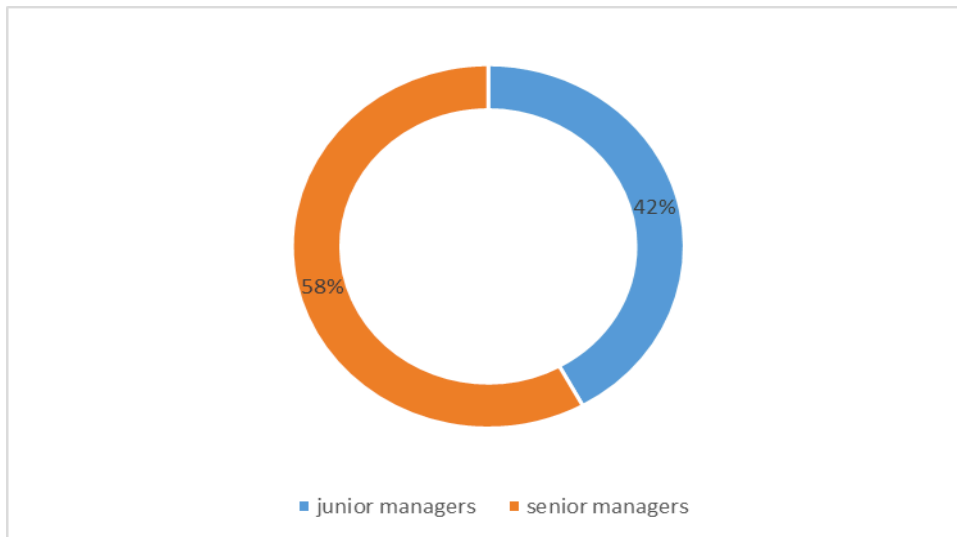
**Figure 4.3: Respondents academic qualification**

**Source: Primary Data 2014**

The findings revealed that 45% of the respondents were postgraduates, 30% had university qualification, 20% had college level of qualification and 5% had a secondary level qualification. This implied that most of the respondents had a postgraduate as the highest level of academic qualification.

#### 4.2.4 Respondent designation

The respondents were requested to indicate their designation in the company. The findings were indicated in Figure 4.4.



**Figure 4.4: Respondent designation**

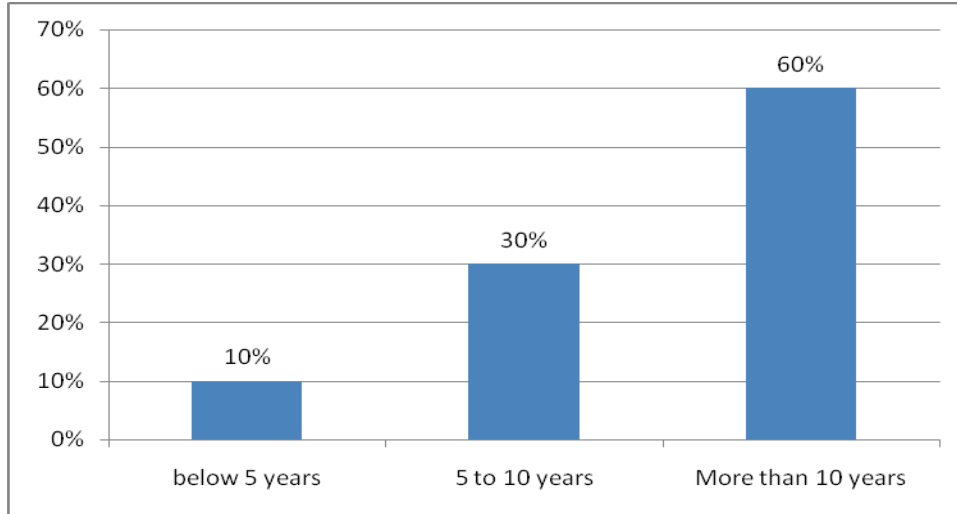
**Source: Primary Data 2014**

The study established that 58% of the respondents were senior managers while 42% were junior managers. This implies that majority of the respondents were in the top management.

#### 4.2.5 Respondents opinion on the duration of operation of their Company

The respondents were told to indicate the period of time of operation of their Company. The findings are illustrated in Figure 4.5.





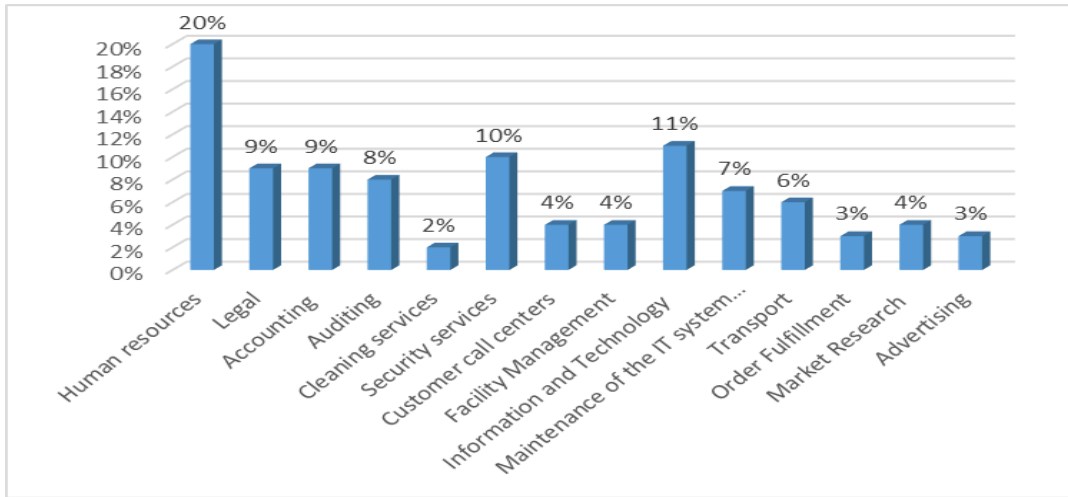
**Figure 4.5: Respondents opinion on the duration of operation of their Company**

**Source: Primary Data 2014**

From the findings majority (60%) of the respondents indicated that their company had been in operation for more than 10 years, 30% indicated that it has been in operation for 5 to years while 10% indicated that it had been in operation for a period of less than 5 years. This implies that most outsourcing firms have been in operation in Kenya for more than years.

#### 4.2.6 Respondents opinion on the services offered to the clients by their Company

The respondents were told to indicate the services offered by their Company. The findings are illustrated in Figure 4.6.



**Figure 4.6: Respondents opinion on the services offered to the clients by their Company**

**Source: Primary Data 2014**

Based on the findings 20% of the respondents indicated human resources were the services offered to their clients, 11.5% indicated information technology, 10% indicated security services, 9% indicated legal and accounting services respectively. Further 8% of the respondents indicated that auditing services were provided, 7% indicated maintenance of the IT system, 6% indicated transport services, 4% indicated customer call centres, facility management and market research respectively. 3% of the respondents indicated order fulfilment and advertising were provided respectively while 2% indicated cleaning services were provided to the clients. This depicts that the services which are highly provided are human resource services.

### 4.3. Factors Affecting the Growth of the Business Process Outsourcing Firms in Kenya.

#### 4.3.1. Business Process Outsourcing

The respondents were requested to indicate the extent to which their organization successfully implemented the following aspects of process outsourcing. The findings were rated on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.1: Business Process Outsourcing**

<b>Business Process Outsourcing</b>	<b>mean</b>	<b>Std. dev</b>
Adoption of appropriate leadership style/management approaches	4.09	0.147
Availability of financial resources to fund the business process outsourcing initiative undertaken by the company	4.12	0.186
Availability knowledgeable and skilled human resources that can be dedicated to business process outsourcing.	3.88	0.224
Adoption of appropriate public relation strategies	4.22	0.264
Clear communication of company's goals, mission and vision.	4.02	0.156
Training programs are conducted for all staff	4.14	0.123
Ensuring that workers are performing the business process outsourcing in the correct manner.	3.89	0.345
Continually monitoring operations to determine if the predicted results are being achieved.	3.95	0.213
Soliciting for feedback from workers to see if there are problems, issues, or additional benefits that team may have missed.	4.02	0.359
Adoption of new technology	4.32	0.234

**Source: Primary Data 2014**

From the table 4.1 above, most of the respondents agreed that their organization had implemented the various aspects of process outsourcing which included: adoption of new technology (mean=4.32), adoption of appropriate public relation strategies (mean=4.22), Training programs are conducted for all staff (mean=4.14); availability of financial resources to fund the business process outsourcing initiative undertaken by the company (mean=4.12), adoption of appropriate leadership style/management approaches (mean=4.09), Clear communication of company's goals, mission and vision (mean=4.02) and soliciting for feedback from workers to see if there are problems, issues, or additional benefits that team may have missed(mean=4.02). They also agreed that continually monitoring operations to determine if the predicted results are being achieved was implemented (mean=3.95), also ensuring that workers are performing the business process outsourcing in the correct manner was also implemented (mean=3.89) and availability of knowledgeable and skilled human resources that can be dedicated to business process outsourcing was also implemented (mean=3.88). This implies that adoption of new technology was successfully implemented.

#### **4.3.2. Need Identification and Business Process Outsourcing**

The respondents were requested to indicate the extent of agreement with the following statements on the influence of need identification on business process outsourcing. The findings were were rated on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.2: Need Identification and Business Process Outsourcing**

<b>Need Identification and Business Process Outsourcing</b>	<b>mean</b>	<b>Std. dev</b>
Organizations undergoing rapid change due to changing internal and external environments embrace outsourcing as an operational strategy to reduce operation costs	4.13	0.187
Companies facing significant capital and headcount constraints embrace outsourcing expensive assets and personnel services	4.02	0.223
Before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved	4.36	0.345
Successful comprehensive feasibility study carried out to benchmark existing practices and identify the opportunities for improvement by the client enhances growth of the BPO firms	4.29	0.123
Expectation failures between the client and vendor due to lack of common understanding of needs stagnates growth of the BPO firms	3.86	0.228
Expectation failures between the product or service delivered and what was originally conceptualized results in loss of trust in the BPO firms	3.89	0.184
Expectation failures between the stakeholders' expectations of the effort and what was delivered inhibits growth of the BPO firms	3.59	0.256

**Source: Primary Data 2014**

From table 4.2, most of the respondents agreed that various needs affected business process outsourcing which include: before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved (mean=4.36), Successful comprehensive feasibility study carried out to benchmark existing practices and identify the opportunities for improvement by the client enhances growth of the BPO firms (mean=4.29);

Organizations undergoing rapid change due to changing internal and external environments embrace outsourcing as an operational strategy to reduce operation costs (mean=4.13), and companies facing significant capital and headcount constraints embrace outsourcing expensive assets and personnel services (mean=4.02). They also agreed that various needs also affected business process outsourcing which include: expectation failures between the product or service delivered and what was originally conceptualized results in loss of trust in the BPO firms (mean=3.89), expectation failures between the client and vendor due to lack of common understanding of needs stagnates growth of the BPO firms (mean=3.86), and expectation failures between the stakeholders' expectations of the effort and what was delivered inhibits growth of the BPO firms (mean=3.56). This implied that the need that affected business process outsourcing was, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved.

#### **4.3.3. Vendor's Expertise and Business Process Outsourcing**

The respondents were requested to indicate the extent to which they agree with the following statements on the influence of Vendor's Expertise on business process outsourcing. The findings were presented on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.3: Vendor's Expertise and Business Process Outsourcing**

<b>Vendor's Expertise and Business Process Outsourcing</b>	<b>mean</b>	<b>Std. dev</b>
Defining requirements in clear, complete and measureable terms is one of the most difficult parts of outsourcing process	4.03	0.176
Vendor's background and experience in industry plays a great role in securing clients for business process outsourcing	4.24	0.185
Vendor's skill levels of its staff the Service level agreements (SLA) it is expected to meet affects business process outsourcing firms	3.88	0.273
Vendor's cost control plan plays a great role in securing clients for business process outsourcing	3.91	0.213
Vendor company profile plays a great role in securing clients for business process outsourcing	4.09	0.126
Vendor's principal owners and the company's principal business plays a great role in securing clients for business process outsourcing	3.99	0.228
Vendor's corporate goal plays a great role in securing clients for business process outsourcing	4.12	0.336
Vendor's office location and service centers plays a great role in securing clients for business process outsourcing	3.56	0.227
Vendor's financial statement reflecting stability and capability and previous experience related to the requirements of the project is a prerequisite by clients needing outsourcing services	4.39	0.185
The business process outsourcing firms need to demonstrate existing technical and management expertise within its organization	3.95	0.221
Credibility of suppliers is critical for the success of outsourcing process	4.04	0.112

**Source: Primary Data 2014**

From table 4.3 above, most of the respondents agreed that various aspects of vendors expertise affected business process outsourcing which include: Vendor's financial statement reflecting stability and capability and previous experience related to the

requirements of the project is a prerequisite by clients needing outsourcing services (mean=4.39), Vendor's background and experience in industry plays a great role in securing clients for business process outsourcing (mean=4.24); Vendor's corporate goal plays a great role in securing clients for business process outsourcing (mean=4.12), Vendor company profile plays a great role in securing clients for business process outsourcing (4.09), Credibility of suppliers is critical for the success of outsourcing process (4.04), and Defining requirements in clear, complete and measurable terms is one of the most difficult parts of outsourcing process (mean=4.03).

They also agreed that various aspects of vendors expertise influence business process outsourcing which include: Vendor's principal owners and the company's principal business plays a great role in securing clients for business process outsourcing (mean=3.99), The business process outsourcing firms need to demonstrate existing technical and management expertise within its organization (mean=3.95), Vendor's cost control plan plays a great role in securing clients for business process outsourcing (3.91), Vendor's skill levels of its staff the Service level agreements (SLA) it is expected to meet affects business process outsourcing firms (mean=3.88) and Vendor's office location and service centers plays a great role in securing clients for business process outsourcing (mean=3.56). This implied that the aspect of vendors expertise that affected business process outsourcing was, Vendor's financial statement reflecting stability and capability and previous experience related to the requirements of the project is a prerequisite by clients needing outsourcing services.



#### 4.3.4. Training and development and Business Process Outsourcing

The respondents were requested to indicate the extent of agreement with the following statements on the influence of Training and development on business process outsourcing.

The findings were presented on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.4: Training and development and Business Process Outsourcing**

<b>Training and development and Business Process Outsourcing</b>	<b>Mean</b>	<b>Std. dev</b>
Continuous business process outsourcing hinges on training of staff	4.12	0.113
The organization encourages the involvement and development of its people by providing ongoing training and career planning	4.39	0.183
Planning for education and training needs take account of change caused by the nature of the organization's processes, the stages of development of people and the culture of the organization.	3.92	0.332
Education and training at the company emphasize the importance of meeting requirements and the needs and expectations of the customer and other interested parties.	4.02	0.226
The education and training provided is evaluated in terms of expectations and impact on the effectiveness and efficiency of the organization	3.88	0.154

**Source: Primary Data 2014**

From the Table 4.4, majority of the respondents strongly agreed that the organization encourages the involvement and development of its people by providing ongoing training and career planning (mean=4.39). Respondents agreed that; Continuous business process outsourcing hinges on training of staff (mean=4.12), Education and training at the company emphasize the importance of meeting requirements and the needs and expectations of the customer and other interested parties (mean=4.02), Planning for education and training needs take account of change caused by the nature of the organization's processes, the

stages of development of people and the culture of the organization (mean=3.92), and the education and training provided is evaluated in terms of expectations and impact on the effectiveness and efficiency of the organization. This implies that respondents strongly agreed that the organization encourages the involvement and development of its people by providing ongoing training and career planning.

#### 4.3.5 Competence needs

The respondents were requested to indicate the extent to which their organization consider the following in the analysis of both the present and expected competence needs as compared to the competence already existing in the organization. The findings were presented on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.5. Competence needs**

<b>Competence needs</b>	<b>Mean</b>	<b>Std.dev</b>
Future demands related to strategic and operational plans and objectives	4.02	0.176
Anticipated management and workforce succession needs	4.12	0.112
Changes to the organization's processes, tools and equipment	4.14	0.228
Evaluation of the competence of individual people to perform activities,	3.64	0.332
Statutory and regulatory requirements, and standards, affecting the organization and its interested parties	3.88	0.173
The vision for the future of the organization	4.09	0.281
The organization's policies and objectives	3.98	0.321
Organizational change and development	3.89	0.145
The initiation and implementation of improvement processes	3.95	0.320
Introductory programmes for new people, and periodic refresher programmes for people already trained	4.07	0.184

**Source: Primary Data 2014**

From the findings the competence needs that are considered in the analysis of both the present and expected competence needs and affect business outsourcing to a great extent were: changes to the organization's processes, tools and equipment (mean= 4.14), anticipated management and workforce succession needs (mean= 4.12), the vision for the future of the organization (4.09), Introductory programmes for new people, and periodic refresher programmes for people already trained (4.07) and Future demands related to strategic and operational plans and objectives (4.02). In addition, the respondents agreed that the competence needs considered in the analysis of both the present and expected competence needs include; The organization's policies and objectives (3.98), the initiation and implementation of improvement processes (mean= 3.95), Organizational change and development (mean= 3.89), Statutory and regulatory requirements, and standards, affecting the organization and its interested parties (mean= 3.88), and evaluation of the competence of individual people to perform defined activities, (mean= 3.64). This implies that changes to the organization's processes, tools and equipment are considered in the analysis of both the present and expected competence

#### **4.3.6. Legal & Regulatory Framework and Business Process Outsourcing**

The respondents were requested to indicate the extent of agreement with the following statements on the influence of Legal & Regulatory Framework on business process outsourcing. The findings were presented on a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all as shown below.

**Table 4.6. Legal & Regulatory Framework and Business Process Outsourcing**

<b>Legal &amp; Regulatory Framework and Business Process Outsourcing</b>	<b>Mean</b>	<b>Std dev</b>
The Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry	4.29	0.142
The government key steps to ensure targets are met; budgetary allocation, setting up of complementary institutions like the Information Communication and Technology Board (ICT Board) that will ensure facilitation and implementation of desired targets boosts BPO firms	4.12	0.234
Procedures laid down in the Act and the Regulations influences sourcing for a service provider for outsourcing initiative	3.91	0.345
Requirements for a legal contract to be signed between the two parties, public entity and the service provider clearly indicating the obligations and responsibilities of each party enhances growth of BPO firms	3.90	0.124
A rapid improvement in technology has played a key role in making outsourcing business in Kenya a realistic and profitable affair to many companies	4.02	0.178
Outsourcing in Kenya has been taken as key strategy to reinvent their business operations	3.95	0.221
The government in Kenya detailed plans to support the growth of business process outsourcing (BPO) in its economy is a major boost to the industry	4.14	0.154
The country's low business environment scores, with legislative risk and high tax rates are holding back the growth of business process outsourcing (BPO)	2.35	0.325

**Source: Primary Data 2014**

From the findings the respondents strongly agree that various aspects influenced Legal & Regulatory Framework on business process outsourcing which included: The Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing

(BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry (mean= 4.29), The government in Kenya detailed plans to support the growth of business process outsourcing (BPO) in its economy is a major boost to the industry (mean= 4.14), the government key steps to ensure targets are met; budgetary allocation, setting up of complementary institutions like the Information Communication and Technology Board (ICT Board) that will ensure facilitation and implementation of desired targets boosts BPO firms (mean=4.12), and a rapid improvement in technology has played a key role in making outsourcing business in Kenya a realistic and profitable affair to many companies (mean=4.02).

In addition, the respondents agreed that various aspects influenced Legal & Regulatory Framework which included; Outsourcing in Kenya has been taken as key strategy to reinvent their business operations (mean= 3.95), Procedures laid down in the Act and the Regulations influences sourcing for a service provider for outsourcing initiative (mean= 3.91), and requirements for a legal contract to be signed between the two parties, public entity and the service provider clearly indicating the obligations and responsibilities of each party enhances growth of BPO firms (mean= 3.90). At a less extent respondents indicated that the country's low business environment scores, with legislative risk and high tax rates are holding back the growth of business process outsourcing (BPO) (mean=2.35) affected legal and regulatory framework. This implies that the Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry affect the legal and regulatory framework on business process outsourcing.

#### **4.4 Discussion of Findings**

From the study it was found out that on the issue of business outsourcing adoption of new technology was successfully implemented. The study also found out that the need that affected business process outsourcing was, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved. This is in agreement with a study by Randall (1993), who stated that successful outsourcing requires identification of a strong need for outsourcing. However, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved. Also a study by Power (2006), defining the needs of an outsourcing project represents a seminal step in the outsourcing life cycle, as it is the statement of needs that gets transferred to the vendor, decides the outcomes of the efforts and sets the stage for evaluation of the outsourcing project

The study also depicted that the aspect of vendors expertise that affected business process outsourcing was, Vendor's financial statement reflecting stability and capability and previous experience related to the requirements of the project is a prerequisite by clients needing outsourcing services. This in contrary to the study done by Power (2006) who stated that soliciting, evaluating and choosing the vendor for outsourcing needs provides a structured framework to guide the organization through critical vendor selection and contracting activities. Choosing the right vendor is much like choosing a good partner; the chances are that if the organization make the right decision from the onset it will have a potentially lasting relationship, while choosing the wrong vendor could damage and thwart a well-intentioned outsourcing project.

The study also indicated that respondents strongly agreed that the organization encourages the involvement and development of its people by providing ongoing training and career planning. The study also depicted that changes to the organization's processes, tools and equipment are considered in the analysis of both the present and expected competence. The findings agree with a study done by Elmuti, (2003) who further emphasizes the importance to get the right people involved in managing outsourcing efforts and add that adequate training, infrastructure and facilities are essential.

Finally the study concluded that the Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry affect the legal and regulatory framework on business process outsourcing. The findings are in accordance with the Public Procurement and Disposal Act (2005) and the Public Procurement and Disposal Regulation (2006) which states that Outsourcing follows the procurement process as governed by this act. Procedures laid down in the Act and the Regulations are adhered to when sourcing for a service provider for outsourcing initiative. A legal contract must be signed between the two parties, public entity and the service provider clearly indicating the obligations and responsibilities of each party. The Kenyan government's strategic plan "vision 2030" has singled out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy. In the short run, the government aims at achieving a top three position as a Business Process Outsourcing destination in Africa

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the data findings on factors affecting the growth of business process outsourcing firms strategies in Kenya. The chapter is therefore structured into summary of findings, conclusions, recommendations and area for further research.

### **5.2 Summary**

From the study it was found out that on the issue of business outsourcing adoption of new technology was successfully implemented. The study also found out that the need that affected business process outsourcing was, before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved.

The study also depicted that the aspect of vendors expertise that affected business process outsourcing was, Vendor's financial statement reflecting stability and capability and previous experience related to the requirements of the project is a prerequisite by clients needing outsourcing services.

The study also indicated that respondents strongly agreed that the organization encourages the involvement and development of its people by providing ongoing training and career planning. The study also depicted that changes to the organization's processes, tools and equipment are considered in the analysis of both the present and expected competence.



Finally the study found that the Kenyan government's strategic plan "vision 2030" singling out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry affect the legal and regulatory framework on business process outsourcing.

### **5.3. Conclusion**

The objective of this study was to examine factors affecting the growth of the Business Process Outsourcing firms in Kenya. The study concludes that business outsourcing was affected by various aspects which need to be considered in a bid to effect the process. The study also concludes that organization encourages the involvement and development of its people by providing ongoing training and career planning. In addition the study concludes that changes to the organization's processes, tools and equipment are considered in the analysis of both the present and expected competence.

Further the study concludes that for business outsourcing to be successful it should follow all legal processes and frameworks. Needs identification are crucial to facilitate the process of business outsourcing in that the most urgent need is considered first. Finally the study concludes that organization encourages the involvement and development of its people by providing ongoing training and career planning. Also the changes to the organization's processes, tools and equipment are considered in the analysis of both the present and expected competence.

#### **5.4. Recommendations**

The study recommends that for the process of business outsourcing to be effective adequate training should be provided to the relevant stakeholders of the organization who are the pillars of the organization. The process of business outsourcing should be conducted in accordance to the agreed legal and regulation framework contained in the Public Procurement and Disposal Act (2005) and the Public Procurement and Disposal Regulation (2006) act.

Vendors expertise is a necessity for business outsourcing process and therefore it should be put into consideration to make the process successful. The business outsourcing process should determine the competent needs so as to determine which needs have agency and which should be considered first. Technology is vital for business outsourcing process and thus should be taken care of to spur the process and achieve its objective.

#### **5.5 Areas of further research**

Since this study explored the factors affecting the growth of business process outsourcing firms strategies in kenya., the study recommends that similar studies should be performed to evaluate the factors affecting the growth of business process outsourcing firms strategies in other countries for comparison purposes and to allow for the generalization of findings.

## **5.6 Limitations of the Study**

The study suffers from a common limitation in quantitative research: the use of subjective measures for the variables considered. However, it is widely reported in the literature that this procedure increases the response rate as well as that there is a high correlation between subjective and objective data on performance (Venkatraman and Ramanujan, 1986). The use of self-reported data may induce social desirability bias, although the assurance of anonymity can reduce such bias when responses concern sensitive topics (Hair et al., 1999).

This study was a cross sectional survey on different firms, the data gathered differed on factors affecting the growth of the Business Process Outsourcing firms. This is because different firms adopt different strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the factors affecting the growth of the Business Process Outsourcing firms.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on factors affecting the growth of the Business Process Outsourcing firms. Due to limited finances the study could not be carried out on all the business process outsourcing firms in Kenya. The study, however, minimized these by conducting the interview at the firms' headquarter since it is where strategies are made and rolled out to other branches that operate on the blue print.

### **5.7 Implication of the study on policy, theory and practice**

The findings imply that business process outsourcing firms should invest more in technology as well as effective adequate training on the relevant stakeholders of the organization who are the pillars of the organization as well as adhere to the legal and regulation framework to positively influence growth of the businesses.

The study formed a better understanding of Resource-Based View theory (a resource-based perspective that focuses on any resource that provides a greater competitive advantage than a substitute resource that can potentially be acquired through outsourcing should be internalized, while other resources should be outsourced). When looking for outsourcing opportunities, business process outsourcing firms should look at potential areas and each component within that area to determine if part or all of that function needs outsourcing.

In practice, the findings of this study can be used by other organizations in planning their strategies for maximum growth of their business process outsourcing firms. This will help in the development of optimum strategies to facilitate better service delivery to customers and partners who demand new and customized services.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

This questionnaire aims at collecting information and data for academic use by the researcher. Your kind participation will go a long way in providing useful information required to complete this research. The information provided will be treated in confidence. You need not indicate your name. Please answer the questions precisely and objectively; the information will be treated confidentially

#### **PART A: Background Information**

Please tick (✓) or fill the gaps as appropriate

1. Gender

Male [      ]      Female [      ]

2. Indicate your age bracket

20-30 yrs      [      ]

31-40 yrs      [      ]

41-50 yrs      [      ]

51 and above      [      ]

3. State your highest level of education

Secondary level      [      ]

College      [      ]

University      [      ]

Postgraduate      [      ]

4. Name of your Company.....

5. What is your designation in your Company?.....

6. How long has your firm been in operation in Kenya (In Years):.....

7. Which of the following services to you offer to your clients?

- Human resources [     ]
- Legal [     ]
- Accounting [     ]
- Auditing [     ]
- Cleaning services [     ]
- Security services [     ]
- Customer call centers [     ]
- Facility Management [     ]
- Information and Technology [     ]
- Maintenance of the IT system equipment [     ]
- Transport [     ]
- Order Fulfillment [     ]
- Market Research [     ]
- Advertising [     ]

**PART B: Factors Affecting the Growth of the Business Process Outsourcing Firms in Kenya.**

**Business Process Outsourcing**

8. To what extent has your organization successfully implemented the following aspects of process outsourcing? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

	1	2	3	4	5
Adoption of appropriate leadership style/management approaches					
Availability of financial resources to fund the business process outsourcing initiative undertaken by the company					

Availability knowledgeable and skilled human resources that can be dedicated to business process outsourcing.					
Adoption of appropriate public relation strategies					
Clear communication of company's goals, mission and vision.					
Training programs are conducted for all staff					
Ensuring that workers are performing the business process outsourcing in the correct manner.					
Continually monitoring operations to determine if the predicted results are being achieved.					
Soliciting for feedback from workers to see if there are problems, issues, or additional benefits that team may have missed.					
Adoption of new technology					

**Need Identification and Business Process Outsourcing**

9. To what extent do you agree with the following statements on the influence of need identification on business process outsourcing (use scale where 1 is very small extent 2 is small extent 3 is moderate 4 great extent 5 is very great.

	1	2	3	4	5
Organizations undergoing rapid change due to changing internal and external environments embrace outsourcing as an operational strategy to reduce operation costs					
Companies facing significant capital and headcount constraints embrace outsourcing expensive assets and personnel services					
Before committing to outsourcing firms, companies need strong evidence that tangible benefits will be achieved					
Successful comprehensive feasibility study carried out to benchmark existing practices and identify the opportunities for improvement by the client enhances growth of the BPO firms					
Expectation failures between the client and vendor due to lack of common					

understanding of needs stagnates growth of the BPO firms					
Expectation failures between the product or service delivered and what was originally conceptualized results in loss of trust in the BPO firms					
Expectation failures between the stakeholders' expectations of the effort and what was delivered inhibits growth of the BPO firms					

**Vendor's Expertise and Business Process Outsourcing**

10. To what extent do you agree with the following statements on the influence of Vendor's Expertise on business process outsourcing (use scale where 1 is very small extent 2 is small extent 3 is moderate 4 great extent 5 is very great.

	1	2	3	4	5
Defining requirements in clear, complete and measurable terms is one of the most difficult parts of outsourcing process					
Vendor's background and experience in industry plays a great role in securing clients for business process outsourcing					
Vendor's skill levels of its staff the Service level agreements (SLA) it is expected to meet affects business process outsourcing firms					
Vendor's cost control plan plays a great role in securing clients for business process outsourcing					
Vendor company profile plays a great role in securing clients for business process outsourcing					
Vendor's principal owners and the company's principal business plays a great role in securing clients for business process outsourcing					
Vendor's corporate goal plays a great role in securing clients for business process outsourcing					
Vendor's office location and service centers plays a great role in securing clients for business process outsourcing					
Vendor's financial statement reflecting stability and capability and previous experience related to the requirements of the project is a prerequisite by clients needing outsourcing services					

The business process outsourcing firms need to demonstrate existing technical and management expertise within its organization					
Credibility of suppliers is critical for the success of outsourcing process					

**Training and development and Business Process Outsourcing**

11. To what extent do you agree with the following statements on the influence of Training and development on business process outsourcing (use scale where 1 is very small extent 2 is small extent 3 is moderate 4 great extent 5 is very great.

	1	2	3	4	5
Continuous business process outsourcing hinges on training of staff					
The organization encourages the involvement and development of its people by providing ongoing training and career planning					
Planning for education and training needs take account of change caused by the nature of the organization's processes, the stages of development of people and the culture of the organization.					
Education and training at the company emphasize the importance of meeting requirements and the needs and expectations of the customer and other interested parties.					
The education and training provided is evaluated in terms of expectations and impact on the effectiveness and efficiency of the organization					

12. To what extent does your organization consider the following in the analysis of both the present and expected competence needs as compared to the competence already existing in the organization? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

	1	2	3	4	5
Future demands related to strategic and operational plans and objectives					
Anticipated management and workforce succession needs					
Changes to the organization's processes, tools and equipment					
Evaluation of the competence of individual people to perform defined					

activities,					
Statutory and regulatory requirements, and standards, affecting the organization and its interested parties					
The vision for the future of the organization					
The organization's policies and objectives					
Organizational change and development					
The initiation and implementation of improvement processes					
Introductory programmes for new people, and periodic refresher programmes for people already trained					

**Legal & Regulatory Framework and Business Process Outsourcing**

13. To what extent do you agree with the following statements on the influence of Legal & Regulatory Framework on business process outsourcing (use scale where 1 is very small extent 2 is small extent 3 is moderate 4 great extent 5 is very great.

	1	2	3	4	5
The Kenyan government’s strategic plan “vision 2030” singling out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy facilitates growth of the BPO industry					
The government key steps to ensure targets are met; budgetary allocation, setting up of complementary institutions like the Information Communication and Technology Board (ICT Board) that will ensure facilitation and implementation of desired targets boosts BPO firms					
Procedures laid down in the Act and the Regulations influences sourcing for a service provider for outsourcing initiative					
Requirements for a legal contract to be signed between the two parties, public entity and the service provider clearly indicating the obligations and responsibilities of each party enhances growth of BPO firms					
A rapid improvement in technology has played a key role in making outsourcing business in Kenya a realistic and profitable affair to many					

companies					
Outsourcing in Kenya has been taken as key strategy to reinvent their business operations					
The government in Kenya detailed plans to support the growth of business process outsourcing (BPO) in its economy is a major boost to the industry					
The country's low business environment scores, with legislative risk and high tax rates are holding back the growth of business process outsourcing (BPO)					



## **APPENDIX II: LIST OF OUTSOURCING FIRMS IN KENYA**

1. Career Options Limited
2. Flexi Personnel Ltd
3. International Talent Management Consulting
4. Odumont Consulting
5. Janta Kenya
6. Performance Through People Africa
7. Business Associates Group
8. Echelon Human Capital Limited
9. Freelance Consultants
10. KEN-TECH DATA LIMITED
11. Technovate BPO & Research
12. RECORDS & ARCHIVES MANAGEMENT SYSTEMS (K) LTD. (RAMS)
13. Nurture World Solutions Ltd
14. Grephys Outsourcing Limited
15. Contactworld
16. Virtual Office
17. Daproim Africa
18. Genius Executives Limited
19. Stanza Solutions
20. Surge Dynamics Ltd
21. Accu Bpo
22. Sme Kenya
23. Outsourced Accountancy Kenya
24. Digital Divide Data
25. Techno Brain Group
26. Craft Silicon
27. CompuLynx
28. Andest Bites

29. Cambridge Africa
30. Business Connections
31. Global Business Process Outsourcing
32. XRX Technologies Ltd
33. African BPO Academy
34. Smart Beaver Digital Decoders
35. Centum Limited
36. KenCall
37. Technobrain
38. Aegis
39. Flexi Personnel Ltd
40. PRIMESOFT SOLUTIONS (K) LTD
41. Fortcom Consult Ltd
42. SGS Kenya
43. Business Connexion
44. C&R Group
45. Corporate Staffing Services
46. HIFIN Solutions
47. COMP-RITE Kenya Limited
48. Data Centre Limited
49. Insight Consultancy Services (K) Ltd
50. Simba Technology Ltd
51. Manpower Networks

**(Source: Kenya IT & Outsourcing Services, 2014)**