CRITICAL SUCCESS FACTORS IN BUSINESS PROCESS OUTSOURCING OF LOGISTICS COMPANIES IN KENYA

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D61/60522/2011

Research Project Submitted in Partial fulfilment of the Requirement for the Degree of Master of Business Administration, University of Nairobi

2012

DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a degree.

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This project has been submitted with my authority as the university supervisor.

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DEDICATION

I dedicate this project to the almighty God for seeing me through the long journey to the completion of my project. To all my family members: to my husband Wainaina for his love, care and support all round.

To my son Zax for being a source of strength and inspiration.

To my mother for all the love and support and sacrifices she has made for me throughout my life.

To my siblings, Gitonga, Mugambi, Mwenda and Makena for the encouragement and support of all kind.

ACKNOWLEDGEMENT

I wish to acknowledge my supervisor`s Mr Onserio Nyamwange for his effort to guide me all through the project. My Moderator Mr. Chirchir and the entire Management Science fraternity for making this route easier to trend on.

I acknowledge my husband once again for his unconditional support and love and support that pushed me through the whole MBA process.

To my classmate and friend Eva for her support and encouragement to go through with my head high.

I can’t forget Fred for proof reading and correcting my project.

Thank you all.

TO GOD I GIVE GLORY.

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ABBREVIATIONS

BPO	Business Process Outsourcing
CSF	Critical Success Factors
TEAMS	The East Africa Marine System
NEPAD	New Partnership for Africa`s Development
LSPs	Logistics Service Providers
3PLs	Third Party Logistics Providers
LLPs	Lead Logistics Providers
4PLs	Fourth Party Logistics Providers
JSC	Joint Services Companies
VNC	Virtual Network Consortia
CSCMP	Council of Supply Chain Management Practice
ROI	Return On Investment
IT	Information Technology
WB	World Bank
EAC	East African Community
UAE	United Arab Emirates
EASSy	East African Submarine System
Y2K	Year 2000 Compliant
SAT-3	South Antlantic 3
SPSS	Statistical packages for social sciences
USA	United States of America

ABSTRACT

As study was carried out on the critical success factors of Business process outsourcing. The study had two objectives: To determine the critical success factors of Business Process Outsourcing in Logistics companies in Nairobi and to establish the challenges of adoption of BPO among logistics companies in Kenya. The findings on each of the three objectives have been summarised as follows.

A census was carried out of all the logistics companies operating in Nairobi. Data was collected through a questionnaire and factor analysis was conducted to establish the main factors and challenges. It was established that there are five critical factors as well as five main challenges. The factors were: investment of international companies in the local economy; internet connectivity; top management support; creation/expansion of a potential niche and necessary expertise. The study also came up with five main challenges that affect the success of BPO among logistics companies in Nairobi. They include: difficulty of assessing savings gained through outsourcing; non-competitive physical structures; coordinating different suppliers; unrealistic expectations from outsourcing providers and communication barriers with supplier.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In the early 1980s, “outsourcing” was referred to firms’ sub-contracting of manufactured physical inputs from outside the firm or the country rather than making them in the country. Outsourcing or sub-contracting was widely associated with relocation of low-skill labour-intensive industrial operations to low-wage countries. Outsourcing is a strategy whereby a company hires an independent outside company to do some of its non-core company work. More companies prefer to own brand rather than physical assets they are de-capitalizing. A few companies are moving toward hiring outside parties to provide almost all services (Kotler, 2003). Globally, the rapid growth outsourcing and offshoring has transformed the business management and their operations (Palugod et al 2011).

In the 21st century, businesses globally are being affected by external environment. Due to increasing global competition and declining profit margins most corporations are pursuing different operations strategies to keep market share and maximize the share holders’ value. In many organizations, cost reduction has become the key policy to help these organisations improve production and overall performance. Outsourcing is one strategy to help in reducing costs as well as in attaining a competitive advantage (Laabs, 2002).

Outsourcing strategies have therefore gained popularity in the world over and have been widely embraced in many developing countries. Pricewaterhousecoopers (1999) concluded from a remarkable study that outsourcing has moved markedly from attending to just a single function more efficiently to reconfiguring a whole process in order to attain greater shareholder value across the enterprise. Now with over 50 Business Process Outsourcing registered companies operational, Kenya has a growing outsourcing sector, and a boom is expected in this sector because of the enhancement by the first of three high-speed undersea fibre network that is the Baharicom, Uhurunet and The East Africa Marine System,(TEAMS) (NEPAD, 2007), which have been operational since 2009 (Pricewaterhousecoopers, 1999).

Business Process Outsourcing

Outsourcing is not a new concept. It has been used in one form or another in many businesses. Outsourcing is a business philosophy that implies employing other people to do things for you. What is different today is the rapid growth in the use of concept.

Many organizations are working towards the concept of organization dealing with core or strategic activities, supported by a network of small companies and individuals (associates) providing a range of supporting ancillary services on contractual basis. These services should be performed at the highest standard possible so as to meet quality requirements (Daniels, 1998).

Quinn (1992) argues that, firms may increase their performance by focusing more narrowly on the things they do best and this is achievable by allowing outside specialist organizations to concentrate on certain tasks that are non-core. However Bettis, Bradley and Hamel (1992) look at the disadvantage of this that outsourcing may reduce organizational innovations, and may shift knowledge to supplier organizations, and may reduce control over a firm’s activities. Thus outsourcing may destroy long-run competitive advantage.

Business process outsourcing entails traditional outsourcing and much more. In other words, outsourcing alone, is viewed as the taking of a set of work, tasks, responsibilities or functions and moving them to be carried out by an outside service provider whereas Business Processing Outsourcing (BPO) involves that and more. The additional part of BPO is that the BPO service provider brings a different perspective, knowledge, experience and technology to an existing function and works with the firm to reengineer it into an improved or new process. It is an outcome-based result, not just a pure cost reduction issue. The new process will interact or be integrated into the company in a way that it improves bottom line, bring value and benefits to the shareholder, and to the client (Craig 2010).

BPO has become a strategic business choice that can be leveraged for competitive advantage as well. It is clear that BPO provides far more than mere cost arbitrage to firms that use it. When a business outsources a process to a vendor whose core

competence is centered on that process, the buyer is likely to experience service enhancements that can be turned into competitive advantages over rivals.
Furthermore, when the buyer–vendor relationship evolves into a business partnership, both sides will be motivated to look for mutually beneficial ways to leverage the combined asset pool.

Logistics Service Providers (LSPs), mainly in the form of Third Party Logistics Providers (3PLs), have become an integral part of many corporate supply chains Sterre (2011). As the business environment and global competitive pressures increase, LSPs are becoming more integrated with their Shipper customers. This is therefore being achieved through creation of partnerships and strategic alliances with complementary service providers who are enhancing the overall value propositions on offer (Mehdi 2008). Lead Logistics Providers (LLPs) have also emerged, offering integrative services that go beyond basic transportation and warehousing functions. Additionally, new business models in supply chain management are also being tried in various configurations; these are the Fourth Party Logistics providers (4PLs), and Joint Services Companies (JSC), where the entire set of supply chain processes is outsourced to a separate management entity. Notably, a modification of the strict configuration of the above two models has emerged as corporations organise into less rigid networks to gain access to capabilities, without long-term equity commitments. This category of new business models is called Virtual Network Consortia (Craig 2010).

BPO is not free of challenges. Many firms have failed because of risks which include loss of organizational learning (Gartner Group, 2004), information security and privacy problems in BPO arrangements (Farrell, 2004), declining rate of innovation (Mouhalis, 2006), motivation erosion of the remaining employees after outsourcing (Aron and Singh, 2005), low performance rates, high transaction costs and other hidden costs (Wilcocks and Feeny, 2006) that may significantly exceed initial capital estimates. The issue of strategic alignment between clients and suppliers has been largely unresolved (Pfannenstein and Tsai, 2004).

Critical Success Factors in Business Process Outsourcing

Representing one of the most frequently cited definitions, Rockart (1979) uses ideas from Daniel (1961) and Anthony et al. (1972) in defining CSF as the ‘‘limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization’’ Meixner S. (2010)

Consequently, Rockart (1979) stresses, that these particular areas of activity should be carefully and constantly managed by a company. In a similar fashion, Bruno and Leidecker (1984) define CSF as those characteristics, conditions or variables that, when properly sustained, maintained, or managed, can have a significant impact on the success of a firm competing on a particular industry, while Pinto and Slevin (1987) regard CSF as factors which, if addressed, significantly improve project implementation chances. According to Esteves (2004) however, both of these definitions fail to address the comprehensive concept proposed by Rockart (1979), which seeks to identify an ideal match between environmental conditions and business characteristics for a particular company. For this study, the preferred definition of CSF is by (Bruno and Leidecker 1984).

Logistics Companies in Kenya

Logistics is the process of planning, implementing and controlling the efficient and effective flow and storage of goods services and related information, from point of origin to point of consumption to conform to customer’s requirements. The logistics functions are; procurement, inventory control, facility location, transportation, warehousing, material handling, order processing and customer service (CSCMP 1998).

Logistics is an area that is receiving significant attention from business management researchers. Logistics outsourcing typically involves the acquisition, handling, and or transportation of goods, a number of legal and regulatory issues specific to such services may arise, such as security interests, insurance, warehouse liens, and allocation of risk during transportation (Halvey and Melby,2007) As with any BPO transaction, the customer and the vendor should consult legal and other counsel, as appropriate, to flesh out all of the applicable legal and regulatory issues and assist in identifying the risks and benefits of the transaction.

Historically, Kenyan trade and national logistics developed from the port of Mombasa taking advantage of the Ugandan railroad. This linear spatial structure along a corridor, so common in sub-Saharan Africa, remains even after road traffic took over the rail and the more recent development of aerial alternative to the corridor. Today most of the cities and economic activities in Kenya and the hinterland (Uganda, Rwanda) are located or close to the famous Northern corridor. Logistics in Kenya is therefore very much about one type of operation: operators struggling against various procedural and physical impediments to move goods along the corridor and eventually not too far off. Currently about ten million tons are moving along the corridor by various means: rail, road, trucking or the Kenyan pipeline.

Despite this apparent simplicity, today's Kenyan logistics is a story of contrasts. On one hand, the country is addressing daunting challenges on the public sector side to catch up on investment in infrastructure and reforms that have been neglecting for two decades, and implement modernization projects at the port and the customs, or privatize the railways. On the other hand, a rather efficient private sector emerged and was able to develop innovative solutions despite a poor investment climate. Through the Mombasa corridor, Kenya is major gateway country for the interior of Eastern Africa. There is a dynamic private logistics services active on this corridor. At the same time several modes of transportation are competing including a history rail, road system and a burgeoning air freight organization for export of horticultural product. Until recently public policies have been lagging behind, resulting in serious bottlenecks in areas such as customs or infrastructures (World Bank 2005).

1.2 Statement of problem

Creation of a win-win scenario between the customer and the contractor is perhaps the most significant factor leading to the successful implementation of an outsourcing strategy. Flexibility is the key to creating the win-win situation. In order to stay competitive in today's global marketplace, companies of all sizes are realizing that outsourcing must be an option for them. In essence, you get to use the expertise and technologies of others, thus eliminating your own capital investment and staffing requirements. It is a great way to reduce your costs. Additional benefits of outsourcing relationships are paying for the results, components, or products received, the hours worked, the products sold, and so on. It allows you to know exactly what each product or result will cost before you decide to obtain it. Using outsourcing allows you to establish a more accurate price for the product or service you are outsourcing (Meixner 2010).

Njeri (2011) conducted a study on Factors that influence business process outsourcing services by horizon call centre in Nairobi Kenya. She argued that the factors that influence business process outsourcing services in call centres in Nairobi are mainly technology and infrastructure. She also added that due to economic issues such as inflation, labour costs have become too high compared to countries like India and Philippines. According to Njuguna (2010) the government of Kenya should ensure continuous growth of the BPO sector by offering competitive or attractive tax regime, removal of conflicting regulatory structures, encouraging or construction of BPO locations, encourage standardization of regulatory work related procedures and processes in BPO industry.

Rene (2010) study on critical success factors in government contract management, found out that in contract management critical success factor categories are similar to critical success factor categories for any kind of project that follows the written rules for project management.

Kinyua (2001) conducted a study on outsourcing of selected financial activities by large firms in the NSE. He argues that for a company to be successful it should have a portfolio of competencies rather than a focus on profits. Another study conducted by Nyarandi (2001) found out that although most outsourcing initiatives are formed with clear objectives, implementations if not carried out well may give rise to dissatisfaction in outsourcing.

Kirui (2001) focused on how competitive advantage through outsourcing of non-core logistics activities within the supply chain of BAT could be beneficial. The study focussed on how competitive advantages through outsourcing of non core logistics activities within the supply chain of BAT could be beneficial. Karani (2007) carried a study focusing on factors impacting delivery reliability of road projects. He identified the main CSF impediments as contractors and clients cash flow problems and delayed payment to contractors.

This study introduces the aspect of Critical Success Factors which is missing in these previous studies. The study thus sought to address the following questions in the logistics services outsourcing in the Kenyan context - what are the critical success factors for BPO to succeed in Logistics industry and what challenges are faced by these companies in Nairobi?

This empirical research study bridged the said gap in the above prior studies conducted in different contexts and environments.

1.3 Objectives of this study

i. To determine the extent to which BPO has been adopted by the logistics companies in Kenya.

ii. To determine the critical success factors of Business Process Outsourcing in Logistics companies in Nairobi.

iii. To establish the challenges of adoption of BPO among logistics companies in Kenya.

1.4 Importance of the study

The results of this study will be of great value to various stake holders in the industry. This study will help other firms in the same industry to know what to outsource in order to maximize profits and offer increased returns to share holders. Outsourcing is a strategy that can allow managers to leverage their company`s skills and resources well beyond levels available with other strategies. The benefit of successfully implementing it maximizes returns on internal resources by concentrating investments and energies on what enterprises do best. Well developed core competencies provide a formidable barrier against present and future competitors that seek to expand into the company`s area of interest. In a rapidly changing market place and technology, the outsourcing strategy decreases risks to the customer firm, shortens cycle times, lowers investments and creates better responsiveness to customer needs (Quinn and Hilmar, 1994).

The outsourced logistics companies especially ones in Kenya and East Africa that shares almost the same environment and challenges will find this study valuable in terms of unearthing the critical success factors of BPO in their companies. This study is in alignment with the Vision 2030. BPO industry has been identified by the government of Kenya as one of five major sectors to focus on for development and economic growth in its Vision 2030. Fourthly, the study will serve as a useful point of reference by scholars and academicians for understanding the critical success factors in the logistics industry in Kenya and it will also stimulate further research on the subject and the related fields.

CHAPTER TWO: LITERATURE REVIEW

2.1 Overview of Business Process Outsourcing

Business Process Outsourcing (BPO) is the fastest growing segment of outsourcing; the organization gets the opportunity it is offered by the professionals when it outsources business processes. These are some of the benefits experienced: the ability to focus on core competencies; cost savings; improved business process quality; flexibility in terms of technology; and reduced time to market (Kerkar et al., 2012)

Organizations across the world are increasingly interlinked with each other. This has been led to, by the reduced international trade barriers and improved telecommunication and IT capability over the past decade. This has resulted to intense global competition, challenging business managers across the world to find ways of reducing the cost of conducting business and accessing global resources in meeting the need of global markets. In such a context, the reorganization of business models to leverage benefits of outsourcing and focus on core competencies has become a key strategy pursued by large corporations across the world. BPO service-providers are expected to provide a wide spectrum of benefits to their customers. This is also viewed as value that customers get for their money. The benefits range from having greater expertise in the outsourced processes, lower costs achieved through economies of scale, scalability and the ability to absorb cyclicality of loads (Pricehousewatercoopers, 2005).

In the past, many BPO providers experienced problems, and lost customers, due to inflexibility or non-scalable solutions. The old world way of doing business was to take over or access their clients closed legacy technology platform, copy the clients existing processes and use cheap labour to deliver the same service. This was termed as “your mess for less” strategy did not allow for process of innovation to become the driver of efficiency and improved customer service. Often the service was not repeatable and the BPO could not leverage it with other clients. For the greatest chance of success, BPO solutions must be standards-based and offer a reliable, proven infrastructure with the ability to integrate with a customer’s systems. In short, a flexible process is needed; one that can be standardized upon and can be made to work with each customer’s business systems without requiring change. To summarize the BPO market, customers are demanding more value as they focus on the Return on Investment (ROI) of their BPO initiatives. This also includes cost savings associated with complete end-to-end solutions that are flexible and reliable enough to work with customers' existing technology infrastructure, and grow with each customer's growing outsourcing needs (Click and Duening, 2005)

The rate of growth, coupled with the increase in BPO competition, means that an organization must find and maintains a competitive advantage beyond price to best take advantage of this opportunity. To excel in the new world BPO providers will need a technology platform that allows process innovation, is reusable as well as adaptable so that speed to delivery can be reduced and the service can be leveraged across multiple clients.

2.2 Drivers of Business Process Outsourcing

Ernest and Young (2011) noted that the economic crisis has focused minds on the flexibility that BPO can offer. For example, those organizations with volume-dependent businesses, such as banks that have seen large margins decline in their volume mortgage business over the past number of months, are viewing BPO as a solution to the volatility they are experiencing in their businesses. BPO undoubtedly supports the need to improve business performance, regulatory compliance and innovation capabilities –without incurring additional costs: it's the old adage of 'do more with less' and BPO certainly offers the potential to achieve this.

Some of the drivers of business process outsourcing are; Agility/flexibility**.** BPO provides the ability to draw on external resources, professional approach and industrialized processes for labour-intensive work, allowing a more flexible, quick and ease of movement; nimble and rapid response to change and freeing up internal resources to focus on innovation and other core business needs. The turbulence in the global economy today has compelled organizations to operate under unparalleled competitive and regulatory pressures. Many markets are now developed, with shorter decision cycles and shrinking time-to-market. Whether it is customer service oriented, a retail chain or a manufacturing company, decisions need to be based on accurate and insightful data. It helps even further if the data can provide some insights into future trends as well (Ernst & Young, 2011).

Improved performance and control of the business processes**.** Control is by rigorous service a level agreement that ensures world-class and compliant processes; continuous improvement and operational efficiency in the processes delivered, as well as increased visibility in support of management reporting excellence and compliance.

Cost reduction. The combination of economies of scale through shared services and bulk service negotiations, intelligent cost management processes and faster, more efficient service delivery cuts the cost of doing business.

Cost containment continues to be a key driver. Many companies aim at containing their costs to levels that they make sustainable profits while being assured of meeting the customers` expectations. They outsource their non-core processes and use the cost savings to invest in new projects that would otherwise not receive funding. Predictable costs in outsourcing are the amount charged per the service unit price multiplied by the volume, which means the costs are controlled by the customer. Where significant changes in volumes are anticipated, it is possible to pre-negotiate future volume discounts. This move to a variable cost basis is very attractive to many companies as much of the risk associated with consumption change is borne by the service provider. Outsourcing service providers are able to deliver these competitive benefits to their customers by carefully managing their business peaks and troughs in demand, and through economies of scale achieved by providing services for hundreds or thousands of customers (Muller, 1991b).

Access to skilled workforce. In recent surveys, companies have rated access to the required workforce in terms of professionalism and skills as one of their top challenges. Of course, retaining skilled staff is also a challenge for service providers due to the shaky job security, but this is usually managed by providing rewarding long term careers and is offset by having sufficient employees with the necessary skills. Special programs to rapidly train staff in “hot “skills are also usually in place “Most major outsourcing service providers have strong graduate trainee programs and global Centre's of expertise where they can tap into the best skills available" (Quinn and Hilmer, 1994).

Focus on core business. The fierce competition in the market, driven by globalization has motivated many companies to determine what their core competencies are, for this is seen as a competitive advantage or the strengths of the company. Core competencies are often denned as those activities that are at the heart of the company and cannot easily be replicated.

Non-core activities, by their very definition, do not materially impact the company's differentiation or bottom line. Outsourcing of non-core activities provides many benefits, such as using savings from the transaction to invest in core activities, freeing up resources to be used for the core competencies, and removing distractions from a company's main focus (Bradley, 1993a).

Quality of the service provided; due to the fact that the BPO service providers are experts, this guarantee improved quality of the service provided in comparison to when the customer firm take up the process by the customer organization (Porter 1998).Timeliness. In the same way, the cycle time and lead times are reduced significantly due to the fact that the professionals handling the process have done this work time and time again. This leads to benefiting from the learning curve which with time, lead to quicker way of carrying out an activity thus shortening the period of time taken to do the task (Porter 1998).

In conclusion, Business Process Outsourcing, lead to; increase in shareholders` value, reduce costs, business transformation, improve operations, overcome lack of internal capabilities, keep up with competitors, gain competitive advantage, improve capabilities, increase sales, improve service, reduce inventory, increase inventory velocity and turns, mitigate capital investment, improve cash flow, turn fixed costs into variable costs and other benefits, both tangible and intangible. To the maximum, and if done correctly, outsourcing and business process outsourcing can be used to create a viable virtual corporation (Craig 2010).

2.3 BPO Critical Success Factors

Political stability. This is a key factor for economic success everywhere in the world. In Africa, the political stability is especially fragile; this could be led mostly by our constitution structure that does not address so many issues. Rather like a thin layer of varnish, in no time removed to make place for situations, such as violence that was recently in Kenya, Zimbabwe and South Africa. The creation of the East African Community (EAC) is a development and a positive factor that widens and deepens cooperation between the East African countries including; Uganda, Kenya, Tanzania, Burundi and Rwanda, the five partner states. Not only can such regional cooperation help prevent unstable situations developing, by helping partner states with peace-building and conflict management but it has opened up the East African markets, which has led to peaceful environment thus promoting market growth and development in the East African region (Juma, 2006).

Internet connectivity. Internet has totally changed the rule of the game. First, Africa as a whole is striving for a Low-cost internet connectivity which is of prime importance, if Africa is to be able to exploit the opportunities for business process outsourcing and other off-shore services. The use of technology especially in the area of telecommunication is experiencing a huge increase, mainly in mobile telephony. On the other hand, the internet usage is still low on the east coast of Africa; leading to slow development of internet businesses. Consequently, a project was set up on the same closed consortium model as SAT-3. This project was named the East African Submarine System, EASSy.

With the urgency and need to increase low cost connectivity for the whole of Africa, the e-Africa Commission decided to take matters rather quick and into its own hands and planned its own fibre network, called Baharicom. The submarine segment of this network is called Uhurunet. Furthermore, the Kenyan government in conjunction with UAE launched The East Africa Marine System, TEAMS linking Kenya with the United Arab Emirates (NEPAD, 2007).

Foreign Direct investment. Having a large entrepreneurial investor present in a country is important. This stimulates other foreign investors looking for areas in this local economy to invest in, either as competitors or as complementary businesses. In countries like Croatia, where Hunya and Skudar (2000) concluded that the foreign sector is more export oriented than the domestic market, it has a positive contribution to exports over time. In Kenya the same case applies. This is because the situation regarding exports is similar to the one in Croatia. Foreign direct investments as mentioned above, contribute to the growth of an economy. Finally, these investments of foreign companies contribute to the knowledge economy as well as exposure to international working culture (Pinto and Slevin, 1987). .

Infrastructure. There is not a direct need for skilled personnel, fixing the Y2K problem. This is because the electricity as well as internet connectivity is a critical criterion for success in order to be attractive to the potential outsourcers. Poor infrastructure is a barrier for further application of technology to development (Gábor and Alen, 2006).

2.4 Challenges of Business Process Outsourcing

There are various factors that influence companies to outsource. These factors include; enabling staffs to concentrate on core activities on organizational specialization, focusing on achieving key strategic objectives, improving the quality of service or products of the firm, lowering or stabilizing overhead cost, and thereby gaining cost advantage over competition. According to (Kinya 2000) the main drivers behind today`s BPO include need to: accelerate resources for other purposes, avoid the function since is difficult to manage or out of control, improve company focus, make capital funds available, reduce operational costs, reduce risk and accessibility to world class capabilities. Small specialized suppliers offer greater responsiveness through a new technology which has helped achieve economies of scale and undermined the need for the vertically integrated organization (Quinn and Hilmer, 1994).

Just as there are many reasons that favour outsourcing, there are many others that discourage its use. Loss of control to third-party provider(s) appears to be the most commonly cited reservation that inhibits firms from using contract logistics (Bardi and

Tracey, 1991; Bowman, 1995; Byrne, 1993; Cooke, 1994b; Lynch *et al.*, 1994; Richardson, 1993a).

The other challenge is lack of comprehensive strategy, to capture the value. However, in reality firms do not totally relinquish their control as outsourcing does not absolve firms of the need to monitor their vendors (Bradley, 1995a). There is need for the two sides to meet frequently to map strategy and resolve problems as they arise. Byrne (1993) adds that the lack of advanced information technology linking manufacturer, carrier, warehouse, and customer operations has often caused hindrance to contract logistics management. This leads to communication disconnections, causing the system to be ineffective.

Besides losing control, losing touch with important information, failure to select or manage providers properly, unreliable promises by the service providers, their inability to respond to the changing requirements of the outsourcing firm, either due to lack of the required technology or expertise, their lack of understanding of the buyer's business goals and difficulty of changing providers have also been cited as potential problems by their users. A major obstacle to outsourcing is the difficulty of obtaining organizational support (Bradley, 1995a)). Management's lack of confidence and trust in an outside company to deliver service at a high level as the company employees is a major issue: the third party may be inadequate in one way or another in its capabilities to meet users' requirements (Cooke, 1994b; Maltz, 1995).

Difficulty of tracing the savings which has been gained through outsourcing creates additional problems. Also, the use of an outside firm may make the firm's logistics staff be apprehensive of their job security: they may develop a fear of loosing their job thus working under pressure resulting to low productivity (Cooke, 1988; Muller, 1991b). Companies planning to outsource their logistics function must address each of these issues carefully, so that contract logistics can be a catalyst for improvement, rather than another problem to handle. By considering various aspects of the outsourcing process cautiously, firms can expect to achieve greater success with third-party logistics.

“American companies have either shifted output to low-wage countries or come to buy parts and assembled products from countries Japan that can make quality products at low prices. The result is a hallowing of American industry. The USA is abandoning its status as an industrial power” (Morita 1986).

Companies in demand BPO must make the right decisions about which BPO services to outsource and which services to retain in-house, precisely taking into account the potential risks involved in BPO and calculate the long-term economic consequences they get from BPO. Many other firms have failed because of risks which include loss of organizational learning (Gartner Group, 2004), information security and privacy problems in BPO arrangements (Farrell, 2004), declining rate of innovation (Mouhalis, 2006), motivation loss of remaining employees (Aron and Singh, 2005), low performance rates, high transaction costs and other hidden costs (Wilcocks and Feeny, 2006) that may significantly exceed initial capital estimates. The issue of strategic alignment between clients and suppliers has been largely unresolved issue (Pfannenstein and Tsai, 2004).

Knowledge transfer has been one of the biggest impediments to success. With offshore outsourcing, clients do not typically transfer knowledgeable employees to the supplier like they typically do in large-scale domestic outsourcing (Udo 2000). Clients complain that offshore employees have little understanding of their business domains. It is quite expensive to train offshore supplier employees, and the threat of supplier turnover and loss of information privacy (IP) is high (Bradley, 1995).

Before outsourcing can be successful, the client organizations must resolve some of their own enduring challenges (Aron and Singh, 2005). In many large organizations, the back offices are not truly aligned with the business. While senior executives may use the rhetoric of the “vital role” back offices provide, they still track back offices as cost burdens (Quelin and Duhamel, 2003). Another big challenge that outflows to outsourced processes is the misalignment of back office and the main operation. Whereas the challenge of information privacy focused on knowledge transfer, this challenge focuses on the client`s knowledge retention. After the first years of a large outsourcing contract, the client`s knowledge retention can dramatically erode through attrition (Feeny and Will cocks 1998).

Business that depends on transport and logistics are well placed in the competitive arena having left the recent economic crisis behind them and are now facing a fresh start. This is the best timing to decide on new initiatives, to take a different road, if the industry as a whole is to emerge more sustainable, more economic, more intelligent, and above all, stronger and more successful.

Modern economical environment is gaining far reaching complexity and competition. Many different companies from vast sectors are facing continuous changes in the market forces due to the liberalization of trade and the impact of new communication means, improved logistics services and electronic banking systems, and other factors, that have lead to a clear increase in global competition. The new economical environment and the globalization process are changing the competition behaviour across industries (Meixner 2010).

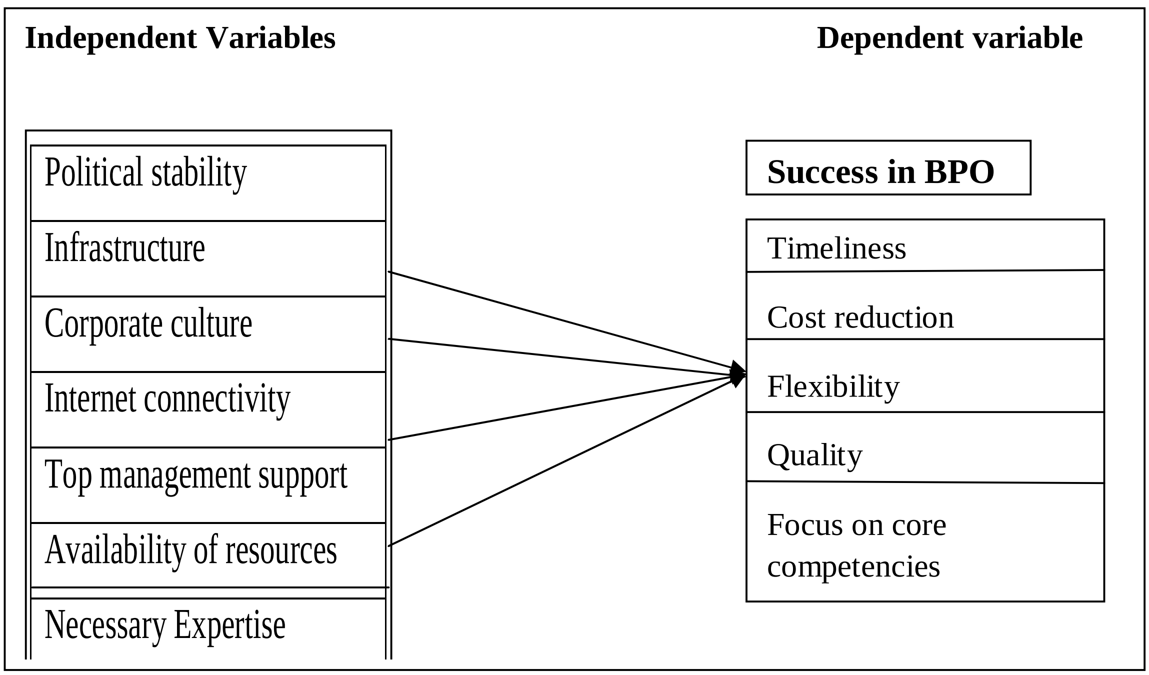
Although businesses have been quick to recognize the potential benefits of Shared Services or Business Process Outsourcing (BPO) adoption, it is still common that such projects failure rate is very high or they are started and then stopped without any meaningful reason. This causes many companies to go through several iterations of Shared Services or Business Processes Outsourcing assessments over many years before serious efforts take place (Meixner 2010).

2.5 Chapter summary

More often than not, Outsourcing is confused for Business Process Outsourcing. The two are quiet different. Outsourcing is taking of a variety of work, tasks, responsibilities or functions and reassigning them to an outside service provider whereas BPO service provider brings a different perspective, knowledge, experience and technology to an existing function and works with the firm to reengineer it into an improved or new process. BPO is outcome-based result, not just a pure cost reduction issue. The process will interact or be integrated into the company in a way that can bring value, improve bottom line and shareholder benefits, to the client (Craig 2010).

Business Process Outsourcing, lead to; increase in shareholders` value, reduce costs, business transformation, improve operations, overcome lack of internal capabilities, keep up with competitors, gain competitive advantage, improve capabilities, increase sales, improve service, reduce inventory, increase inventory velocity and turns, mitigate capital investment, improve cash flow, turn fixed costs into variable costs and other benefits, both tangible and intangible. To the maximum, and if done correctly, outsourcing and business process outsourcing can be used to create a viable virtual corporation (Craig 2010).

2.6 Conceptual Framework



There are a number of factors that determine the success of BPO. These factors include: Political stability; infrastructure; corporate culture; internet connectivity; top management support; availability of resources and availability of the necessary expertise. If all the activities concerning these factors are handled effectively, then there will be success in BPO. Success in BPO will be reflected through achievement of timeliness, cost reduction, flexibility, agility and better focus on core competencies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology that the researcher employed in the study. The methodology included the research design, population of the study, sample size and sampling design, data collection methods and data analysis techniques.

3.2 Research design

The study adopted a descriptive research design in investigating the factors that determine the success of business process outsourcing. It involved a census of the logistics firms in Nairobi. Tanur (1982) described survey as the means of collecting information about a large group of elements referred to as the population. He said that a survey has three characteristics: data collection was by asking people structured and predefined questions, it produces quantitative descriptions of some aspects of the study population in which it is concerned with relationships between variables, or with projections of findings descriptively to a predefined population (Pinsonneault and Kraemer, 1992).

3.3 Population of the study

The population of the study included all the logistics companies operating in Nairobi. According to the official yellow pages there were 70 logistics companies operating in Nairobi. These 70 companies were therefore the population of this study. This was where the sample was derived from.

3.4 Population and Sampling

Since the logistics companies are not very many the study was a census. All the 70 logistics companies were therefore part of the sample for this study. They were involved in the study to determine the factors that influence the success of BPO processes. The 70 logistics companies formed the target population of my study.

3.5 Data collection Methods

Primary data was collected for the purpose of this study. Primary data is information gathered directly from the respondents (Kothari, 2004). The data will be collected by use of a semi-structured questionnaire. The questionnaire was considered appropriate because it was easy to administer. The questionnaire was divided into two sections. Section A contained questions on company profile while section B contained questions on the factors that influence the success of BPO and challenges. The questionnaires were administered to the supervisors or head of logistics departments or persons responsible for the logistics department, from the selected outsourced logistics companies in Nairobi.

3.6 Data analysis

The researcher collected both quantitative and qualitative data. Two methods of data analysis were therefore adopted to enable the researcher conduct a comprehensive analysis. The descriptive data was analyzed using Statistical packages for social sciences (SPSS) while the qualitative data was analyzed by content analysis. The researcher used frequencies and percentages as well as factor analysis in determining the critical success factors of BPO in logistics companies in Nairobi. The same process of analysis was used to various challenges that face logistics companies.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis, findings, and interpretations of the study. The data was collected from the logistics companies operating in Nairobi, Kenya analyzed and presented in the form of tables and charts. Seventy questionnaires were distributed to the respondents. However, the researcher was only able collect 51 questionnaires that were successfully filled. This gave a response rate of 72.86% which was considered adequate for the study.

4.2 Organizational profile

Here, the study sought to ascertain the general organizational profile of the logistics companies in Nairobi such as ownership type, areas the organizations operate, existence of logistics department in the organizations and the size of the firms of clients who outsource logistics services from the companies.

The researcher sought to determine the type of ownership of the logistics companies in Nairobi.

The researcher also sought to ascertain from the respondents the areas logistics companies in Nairobi operate. The study findings presented above indicate that 33.3% of the logistics companies operate in some parts of the country, 43.1% operate in all parts of the country while 23.5% operate in several countries.

The study sought to determine whether logistics companies in Nairobi operate logistics departments. As shown above, 68.6% of the logistics companies in Nairobi have logistics departments while 31.4% do not have.

The study findings indicate that 15.7% of clients outsourcing logistics services from logistics companies in Nairobi constitute medium size firms while 84.3% constitute small, medium and large firms.

4.3 Critical Success Factors in Business Process Outsourcing

In this section, the researcher sought to establish the critical success factors in business process outsourcing among logistics companies in Nairobi. A factor analysis was conducted on thirteen factors with the aim of identifying the critical success factors with more weighting business process outsourcing of logistics companies in Nairobi, Kenya. The study findings are presented and explained in here below.

Table 4.5: Correlation Matrix A

	Political stability	Infrastructure	Corporate culture	Internet connectivity
Political stability	1.000	-.056	.572	.237
Infrastructure	-.056	1.000	.453	.782
Corporate culture	.572	.453	1.000	.600
Internet connectivity	.237	.782	.600	1.000
Top management support	-.424	.525	.017	.197
Availability of resources	-.001	.445	.146	.513
Necessary experts	-.087	.095	.370	.166
Master of the English language as a global language	.369	.261	.768	.295
Electricity connectivity	.543	-.080	.334	.109
Education levels- university graduates	.420	-.232	.399	.045
Exposure to diverse working cultures	.025	-.393	.004	-.149
Investment of international companies in the local economy	.507	-.168	.430	.021
Creation/expansion of a potential niche	.094	-.227	.104	-.031

It is clear from the Correlation Matrix A in table 4.5 that correlations are not extremely high for some success factors in business process outsourcing among the logistics companies in Nairobi while for others, the correlations are high. For instance, there is a moderate positive relationship with a factor of 0.572 between political stability and corporate culture. This implies that the two factors are directly correlated hence they move in the same direction. It is also clear from the study findings that there is a strong positive correlation with a factor of 0.782 between infrastructure and internet connectivity. This is an indication that the nature of infrastructure influences the level of internet connectivity among logistics companies in Nairobi. This means that if the level of infrastructure development is high among logistics companies in Nairobi, then it is likely that there will be higher levels of internet connectivity among the companies and vice versa.

Table 4.6: Correlation Matrix B

	Top management support	Availability of resources	Necessary experts
Political stability	-.424	-.001	-.087
Infrastructure	.525	.445	.095
Corporate culture	.017	.146	.370
Internet connectivity	.197	.513	.166
Top management support	1.000	-.103	-.062
Availability of resources	-.103	1.000	.187
Necessary experts	-.062	.187	1.000
Master of the english language as a global language	.297	-.111	.341
Electricity connectivity	-.313	.138	.111
Education levels- university graduates	-.559	-.202	-.049
Exposure to diverse working cultures	-.135	-.599	-.098
Investment of international companies in the local economy	-.498	-.298	.058
Creation/expansion of a potential niche	-.473	-.135	.130

Table 4.6 above shows both positive and negative correlation between success factors in business process outsourcing. For instance there is a moderate positive relationship with a factor of 0.525 between top management support and infrastructure. This implies that the if the top management strongly support the logistics companies in Nairobi, then the level of infrastructure development among the companies is expected to be high and vice versa. Equally there is strong relationship between availability of resources and internet connectivity with a factor of 0.513. This means that the availability of resources directly influence internet connectivity among logistics companies in Nairobi. On the other hand, education levels and top management support as well as exposure to diverse working cultures and availability of resources both are inversely correlated with a factor of 0.599.

Table 4.7: Correlation Matrix C

	Master of the English language as a global language	Electricity connectivity	Education levels- university graduates
Political stability	.369	.543	.420
Infrastructure	.261	-.080	-.232
Corporate culture	.768	.334	.399
Internet connectivity	.295	.109	.045
Top management support	.297	-.313	-.559
Availability of resources	-.111	.138	-.202
Necessary experts	.341	.111	-.049
Master of the english language as a global language	1.000	.333	.201
Electricity connectivity	.333	1.000	.514
Education levels- university graduates	.201	.514	1.000
Exposure to diverse working cultures	.165	.173	.678
Investment of international companies in the local economy	.304	.502	.904
Creation/expansion of a potential niche	.001	.219	.735

Table 4.7 above indicates that there is a strong positive correlation between corporate culture and master of English language as a global language with a factor of 0. 768. It is also evident from the study findings that there is a very strong positive relationship between investment of international companies in the local economy and education levels with a factor of 0.904. This means that the two factors directly move in the same direction almost with the same magnitude. This therefore implies that the level of education in the labor market as a factor influences investment of international companies in the local. Equally, the study results show that there is a strong positive correlation between creation/expansion of a potential niche among logistics companies in Nairobi Kenya and educational levels with a factor of 0. 735. This implies that the two factors are directly related and they move in the same direction.

Table 4.8: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.786
Bartlett's Test of Sphericity	Approx. Chi-Square	771.607
	df	78
	Sig.	.000

To be considered suitable for factor analysis the correlation matrix should, the Bartlett's test of sphericity should be statistically significant at $p<0.05$ and the Kaiser-Meyer-Olkin value should be 0.6 or above. From the study findings as presented in table 4.8 above, the KMO value is 0.786, and the Bartlett's test is significant (p=.000), therefore factor analysis is appropriate.

Table 4.9: Communalities

	Initial	Extraction
Political stability	1.000	.883
Infrastructure	1.000	.916
Corporate culture	1.000	.900
Internet connectivity	1.000	.882
Top management support	1.000	.899
Availability of resources	1.000	.872
Necessary experts	1.000	.958
Master of the english language as a global language	1.000	.904
Electricity connectivity	1.000	.607
Education levels- university graduates	1.000	.929
Exposure to diverse working cultures	1.000	.863
Investment of international companies in the local economy	1.000	.941
Creation/expansion of a potential niche	1.000	.898

Extraction Method: Principal Component Analysis.

Table 4.9 above shows the analysis of the principal components i.e. Critical Success Factors in Business Process Outsourcing that were subjected to factor analysis. A total of thirteen factors were subjected to factor analysis and each one of them was assumed to have eigenvalue of one before the analysis.

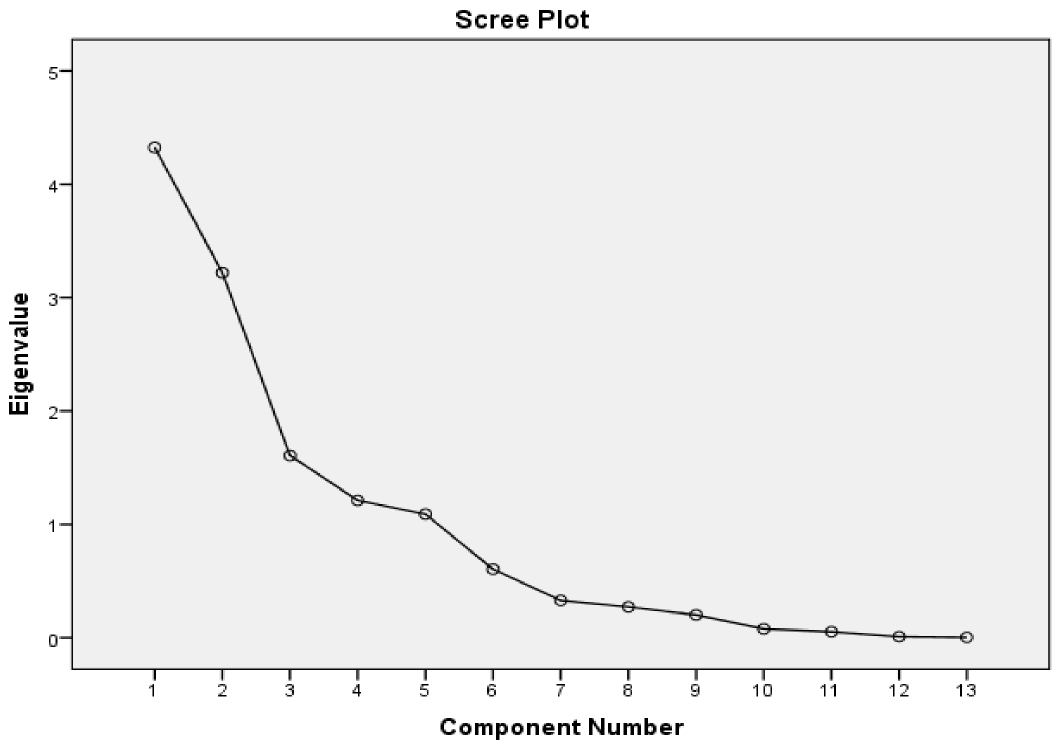
Table 4.10: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.325	33.269	33.269	4.325	33.269	33.269
2	3.219	24.764	58.032	3.219	24.764	58.032
3	1.607	12.364	70.396	1.607	12.364	70.396
4	1.210	9.311	79.707	1.210	9.311	79.707
5	1.090	8.388	88.095	1.090	8.388	88.095
6	.604	4.645	92.741			
7	.329	2.530	95.271			
8	.272	2.090	97.361			
9	.201	1.545	98.906			
10	.078	.598	99.504			
11	.053	.404	99.908			
12	.009	.070	99.978			
13	.003	.022	100.000			

Extraction Method: Principal Component Analysis.

Total Variance Explained table shows the actual factors that were extracted. The researcher was interested only in components that have an eigenvalue of 1 or more. As shown in table 4.10 above, only five components recorded eigenvalues above 1 (4.325, 3.219, 1.607, 1.210 and 1.090). The percentage of variance column shows how much of the total variability (in all of the variables together) can be accounted for by each of these factors. Factor 1, 2, 3, 4 and 5 account for 33.269%, 24.764%, 12.364%, 9.311% and 8.388 % of the variability respectively in all 13 variables. Together, the five factors explain 88.095% of the variance in the original data as shown in the cumulative percent column.

Figure 4.1: Scree plot



As shown in the figure 4.1, factors 1, 2 and 3 explain or capture much more of the variance than the remaining factors. However, the plot gradient starts to level out after just five factors. This therefore means that the study will extract five critical success factors in business process outsourcing of logistics companies in Nairobi, Kenya.

The component matrix in table 4.12 below is the last step of this factor analysis. From each of the columns the factor with the highest loading will be selected. Consequently, in column one, investment of international companies in the local economy is selected as the factor with the highest loading while internet connectivity, top management support and creation/expansion of a potential niche are selected as factors with the highest loading in columns two, three and four respectively. In column five necessary expertise. This therefore implies that the abovementioned five factors are the critical success factors of business process outsourcing of logistics companies in Nairobi, Kenya.

Table 4.11: Component Matrix[a]

	Component				
	1	2	3	4	5
Investment of international companies in the local economy	.958				
Education levels- university graduates	.936				
Creation/expansion of a potential niche	.744			.549	
Exposure to diverse working cultures	.662	-.373	.480		
Electricity connectivity	.603			-.316	
Political stability	.584	.348		-.573	
Internet connectivity		.831			.318
Corporate culture	.461	.806			
Infrastructure		.795			.318
Master of the english language as a global language	.355	.615	.513		
Top management support	-.570		.686		
Availability of resources		.526	-.674		
Necessary experts		.366		.305	-.850

4.3 Challenges in Business Process Outsourcing

Business process outsourcings have proved a grand success. However, certain problems have cropped up in the process for which long-term solutions are necessary. The study sought to find out the main challenges in business process outsourcing facing logistics companies in Nairobi, Kenya. The respondents were asked the extent they agreed to a list of twenty five challenges presented them. Factor analysis was done in order to identify the main challenges with more weight. The study findings are presented and explained below.

Table 4.12: Correlation Matrix 1

	Lack of comprehensive strategy	Loss of control to third party service providers	Difficulty of assessing savings gained through outsourcing
Lack of comprehensive strategy	1.000	.824	.922
Loss of control to third party service providers	.824	1.000	.905
Difficulty of assessing savings gained through outsourcing	.922	.905	1.000
Lack of advanced information technology	.771	.914	.911
Loss of information privacy	.844	.781	.896
Threat of supplier turnover	.641	.796	.766
Lack of expertise	.827	.917	.934
Cost escalation	.652	.749	.751
Lack of supplier flexibility	.316	.590	.388
Overdependence on supplier	.325	.343	.325
Unrealistic expectations of outsourcing providers	.471	.481	.338
Long term commitment	.309	.004	.146
Communication barriers with supplier	.203	.195	.312
Overdependence on few suppliers	-.091	.194	.003
Extra training	.037	.258	.110
Redundant payments	.713	.742	.810
Coordinating different suppliers	.424	.233	.298
Quality of service	.718	.703	.791
Lack of appropriate skills	.523	.532	.490
Attractiveness of the environment to investors	.335	.157	.163

The study findings presented in table 4.12, show that there are a number of strong positive correlations between challenges. For instance, there is a strong positive correlation between the loss of control to third party service providers and lack of comprehensive strategy with a factor of 0.824. This is an indication that if there is lack of comprehensive strategy among logistics companies in Nairobi, then it is likely that there will be loss of control to third party service providers. Similarly, the study findings indicate that there is a strong positive correlation between difficulties of assessing savings gained through outsourcing and lack of comprehensive strategy with a factor of 0. .922. These two challenges are directly correlated an indication that both of them move the same direction almost at similar magnitudes. Also as shown in the table above, there is a strong positive correlation between lack of expertise and difficulties of assessing savings gained through outsourcing with a factor of 0.934. This implies that if the level lack of expertise among logistics companies in Nairobi is high, then it is expected that the companies will face a high level of difficulties in assessing savings gained through outsourcing.

Table 4.13: Correlation Matrix 2

		Communication barriers with supplier	Overdependence on few suppliers	Extra training	Redundant payments
Correlation	Lack of comprehensive strategy	.203	-.091	.037	.713
	Loss of control to third party service providers	.195	.194	.258	.742
	Difficulty of assessing savings gained through outsourcing	.312	.003	.110	.810
	Lack of advanced information technology	.280	.277	.309	.647
	Loss of information privacy	.195	.011	.319	.722
	Threat of supplier turnover	.284	.080	.401	.734
	Lack of expertise	.367	.054	.257	.828
	Cost escalation	.321	.202	.371	.560
	Lack of supplier flexibility	-.030	.389	.159	.268
	Overdependence on supplier	.205	.268	.106	.324
	Unrealistic expectations of outsourcing providers	.002	.349	.194	.263
	Long term commitment	.297	-.337	-.318	.191
	Communication barriers with supplier	1.000	.137	-.022	.502
	Overdependence on few suppliers	.137	1.000	.538	-.016
	Extra training	-.022	.538	1.000	-.031
	Redundant payments	.502	-.016	-.031	1.000
	Coordinating different suppliers	-.129	-.007	.559	.140
	Quality of service	.530	-.173	-.156	.935
	Lack of appropriate skills	-.092	.098	.460	.388
	Attractiveness of the environment to investors	-.217	-.529	-.220	.089

Correlation Matrix 2 in table 4.13 indicates both positive and negative correlation among the challenges. As shown above there is a strong positive correlation between quality of service and redundant payments with a factor of 0. 935. This means that the two challenges almost move in the same direction with similar scale. On the other hand, attractiveness of the environment to investors and overdependence on few suppliers are inversely related with a factor of -0.529. This therefore implies that if attractiveness of the environment to investors is high, then it is moderately expected that overdependence on few suppliers will below.

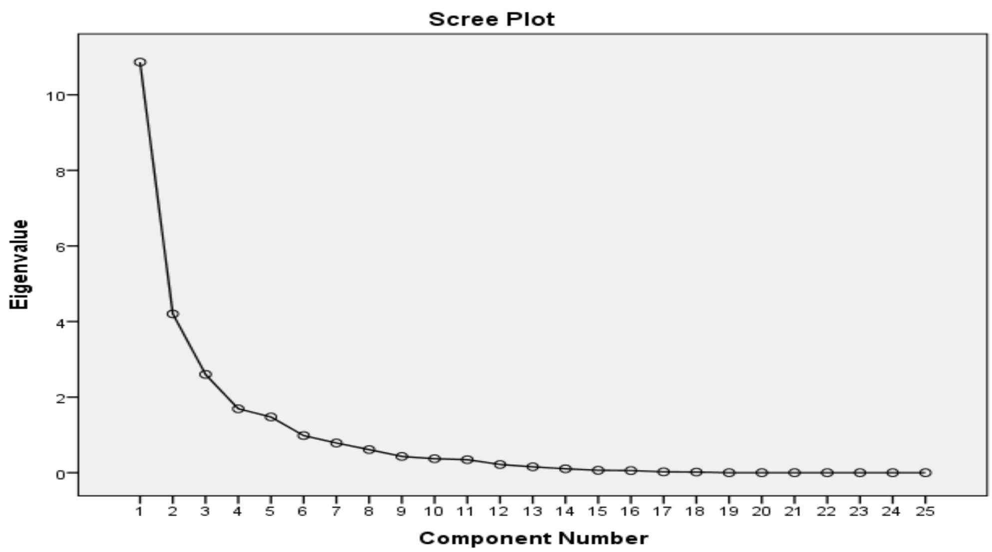
Table 4.14: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.866	43.462	43.462	10.866	43.462	43.462
2	4.203	16.812	60.274	4.203	16.812	60.274
3	2.602	10.408	70.682	2.602	10.408	70.682
4	1.691	6.765	77.448	1.691	6.765	77.448
5	1.475	5.899	83.346	1.475	5.899	83.346
6	.982	3.928	87.275			
7	.786	3.145	90.420			
8	.611	2.444	92.863			
9	.430	1.721	94.584			
10	.370	1.480	96.064			
11	.345	1.379	97.443			
12	.217	.869	98.312			
13	.157	.628	98.940			
14	.104	.417	99.357			
15	.064	.256	99.612			
16	.056	.225	99.838			
17	.023	.091	99.929			
18	.018	.071	100.000			
19	7.117E-016	2.847E-015	100.000			
20	4.794E-016	1.918E-015	100.000			
21	3.830E-016	1.532E-015	100.000			
22	2.030E-016	8.121E-016	100.000			
23	-3.456E-016	-1.382E-015	100.000			
24	-4.499E-016	-1.800E-015	100.000			
25	-7.717E-016	-3.087E-015	100.000			

Table 4.15 shows the actual challenges that were extracted. The researcher was interested only in challenges that have an eigenvalue of 1 or more. The study findings presented in the table above indicate that five challenges recorded eigenvalues above 1 (10.866, 4.203, 2.602, 1.691 and 1.475). Challenge 1 accounts for 43.462% of the total variability while changes 2, 3, 4 and 5 account for 16.812%, 10.408%, 6.765% and 5.899% of the

variability in all of the variables together. Together, the five challenges explain 83.346% of the variance in the original data.

Figure 4.2: Scree plot for challenges



The screen plot above shows the number of challenges that were extracted. The five components represent the five main challenges that were extracted from the very many challenges under consideration.

From the component matrix below, the researcher extracted the five challenges from the five columns. From each column, the challenge with the highest loading was picked. In the first column, Difficulty of assessing savings gained through outsourcing had the highest loading of 0.950 and was therefore extracted as the challenge with the highest variance as illustrated in the variance explained table. Non-competitive physical structures had the highest loading in the second column hence was extracted as the challenge that had the variance of 16.8%. In the third column coordinating different suppliers had the highest loading of .781 hence was extracted as the third main challenge. Unrealistic expectations of outsourcing providers had a loading of .629 which was the highest. In the last column, Communication barriers with supplier were the challenge with the highest loading.

Table 4.15: Component matrix- challenges

Component Matrix[a]

	Component				
	1	2	3	4	5
Difficulty of assessing savings gained through outsourcing	.950	-.014	.018	-.132	-.129
Lack of expertise	.937	-.164	.087	-.187	-.089
Loss of information privacy	.877	-.183	.174	-.141	-.142
Redundant payments	.850	.037	-.158	-.266	-.029
Quality of service	.847	.126	-.282	-.225	-.093
Lack of advanced information technology	.821	-.292	.004	-.109	-.070
Threat of supplier turnover	.809	-.346	.152	-.161	-.112
Implementation of axle-load policy (Weighbridges)	.785	.314	-.194	.267	-.151
Cost escalation	.782	-.393	-.021	-.024	-.104
Obsolete handling of equipment and lack of automation	.736	.466	-.216	.103	.136
Congestion at the container terminal	.672	.446	-.184	-.069	.326
Flow of procedures and documentation	.605	.535	-.147	.279	.206
Non-competitive physical structures	.000	.800	.197	.268	-.286
Long term commitment	.220	.758	.184	.055	.345
Extra training	.164	-.706	.487	.045	.360
Overdependence on few suppliers	.047	-.687	-.071	.381	.402
Attractiveness of the environment to investors	.156	.663	.559	-.018	-.205
Coordinating different suppliers	.382	-.035	.781	.087	.214
Lack of appropriate skills	.521	-.073	.777	-.040	.007
Unrealistic expectations of outsourcing providers	.457	.050	.185	.629	.270
Overdependence on supplier	.495	-.236	-.370	.578	-.050
Lack of supplier flexibility	.415	-.442	-.186	.463	-.454
Communication barriers with supplier	.412	.025	-.478	-.342	.536

Extraction Method: Principal Component Analysis.

a. 5 components extracted.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings on critical success factors in business process outsourcing of logistics companies in Kenya. The chapter also presents the conclusion and recommendations made based on the findings from the study.

5.2 Summary of Findings

The study had two objectives to achieve: To determine the critical success factors of Business Process Outsourcing in Logistics companies in Nairobi and to establish the challenges of adoption of BPO among logistics companies in Kenya. The findings on each of the three objectives have been summarised as follows.

5.2.1 Critical Success Factors in Business Process Outsourcing

There were a total of thirteen critical factors that the study subjected to factor analysis. The study came up with five main critical factors that are significant in business process outsourcing. The factor that had the highest variance was investment of international companies in the local economy. The study established that the level of investment by international companies in the Kenyan economy affects the success of business process outsourcing. These companies bring with them a wealth of experience that benefits the local economy as far as business process outsourcing is concerned.

It was established from the study that internet connectivity was the second most critical success factor in business process outsourcing among logistics companies in Kenya. Most of the logistics companies indicated that internet connectivity assists the companies to do competitive sourcing. They are able to reach a wider network of companies that can be able to provide the services that are required. The researcher also found out that top management support is the third most important or critical success factor in business process outsourcing. The top management of logistics companies are very important in providing leadership during business process outsourcing. Lack of proper leadership from top management will adversely affect the success of a business process outsourcing initiative.

It was clear from the study that logistics companies engaging in business process outsourcing need to create or expand a potential niche in order to be successful. This gives the outsourcing company an edge over its competitors. The last critical success factor extracted from the findings was necessary expertise. Business process outsourcing needs to be carried out by people or experts with wide knowledge and experience. Availability of such experts or non-availability will therefore determine the outcome of a business process outsourcing initiative.

5.2.2 Challenges of BPO Adoption

The study considered several challenges that may affect the success of business process outsourcing. A total of 25 potential challenges were subjected to factor analysis after the respondents had rated them. The study established that there are five main challenges that account for more than 80% of the variance in the success of business process outsourcing. The first challenge that had a variance of 43.5% was the difficulty of assessing savings gained through outsourcing. Logistics companies confirmed that it was not very easy for them to come up with a comprehensive figure of the gains that they make from BPO. This therefore discourages most of the BPO initiatives being undertaken by logistics companies. It was also established that non-competitive physical structures that are available with most logistics companies make it impossible to carry out BPO.

It was also evident from the study that logistics companies found it very difficult to coordinate different suppliers in Business Process outsourcing. This becomes a challenge since dealing with different suppliers may be overwhelming to the companies. The study also found out that some of the outsourcing providers had very unrealistic expectations which ended up becoming a stumbling block to the BPO initiative. Communication barriers with supplier were also noted as the last main challenge that logistics companies in Nairobi must address during any BPO initiative.

5.3 Conclusions

There are five main critical success factors that determine the success of a BPO initiative. They include: investment of international companies in the local economy; internet connectivity; top management support; creation/expansion of a potential niche and necessary expertise. The study also came up with five main challenges that affect the success of BPO among logistics companies in Nairobi. They include: difficulty of assessing savings gained through outsourcing; non-competitive physical structures; coordinating different suppliers; unrealistic expectations from outsourcing providers and communication barriers with supplier.

5.4 Recommendations

Logistics companies in Nairobi should make sure that they have plans in place to cater for the five critical success factors when implementing any BPO initiative.

The five main challenges identified account for more than 80% of the variance on the success of BPO among logistics companies in Nairobi. The companies should therefore find out ways of ensuring that these challenges are addressed appropriately

In addressing the critical success factors and challenges, the logistics companies should allocate resources and time according to the variance each of the factors and challenges accounts for. This is because they do not carry the same weight and effect on the success of BPO.

5.5 Suggestions for Further Research

It will be important to carry out a similar study in a different industry in Kenya so as to compare the findings for any similarities and differences. A comparative analysis with other countries will also assist shed light on the critical success factors and challenges of BPO.

This study can also be replicated after some duration for instance 5 years in order to find out whether there are any changes as far as the critical success factors for BPO among logistics companies are concerned.

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Appendix I: Research Questionnaire

Section A: Organizational profile

1. Name………………………………………………………………………………

2. Ownership type

   i) Public

   ii) Private

   iii) Multinational

3. Areas the organization operates in

   a) Part of the country

   b) All parts of the country

   c) Many countries

4. Do you have a logistics department?

   a) Yes

   b) No

5. How large are the firms of clients who outsource your logistics services?

   a) Small firms

   b) Medium firms

   c) Large firms

   d) All the above

Section B: Critical BPO success factors and challenges

6. Please indicate the extent to which you consider the following as success factors in BPO.

   Use the scale of:

   1. To a very large extent
   2. Large extent
   3. Moderate extent
   4. Small extent
   5. Very small extent

Que.6	**SUCCESS FACTORS**	**1**	**2**	**3**	**4**	**5**
1	Political stability					
2	Infrastructure					
3	Corporate culture					
4	Internet connectivity					
5	Top management support					
6	Availability of resources					
7	Necessary Expertise					
8	Master of the English language as a global language					
9	Electricity connectivity					
10	Education levels – university graduates					
11	Exposure to diverse working cultures					
12	Investments of international companies in the local economy					
13	Creation or expansion of a potential niche					

7 Please indicate the extent to which you consider the following as challenges in BPO.

Use the scale of:

1. To a very large extent
2. Large extent
3. Moderate extent
4. Small extent
5. Very small extent

	CHALLENGES	**1**	**2**	**3**	**4**	**5**
1.	Lack of comprehensive strategy					
2.	Loss of control to third party service providers					
3.	Difficulty of assessing the savings to be gained through outsourcing					
4.	Lack of advanced information technology					
5.	Loss of information privacy					
6.	Threat of supplier turnover					
7.	Lack of expertise					
8.	Cost escalation					
9.	Lack of supplier flexibility					
10.	Overdependence on supplier					
11.	Unrealistic expectations of outsourcing providers					
12.	Long term commitment					
13.	Communication barriers with supplier					
14.	Overdependence on few suppliers					
15.	Extra training					
16.	Redundant payments					
17.	Coordinating different suppliers					
18.	Quality of service					
19.	Lack of appropriate skills					

20.	Attractiveness of the environment to investors					
21.	Non competitive physical structures					
22.	Flow of procedures and documentation					
23.	Implementation of axle-load policy (weighbridges)					
24.	The congestion at the container terminal					
25.	Obsolete handling equipment and lack of Automation					

Appendix 11: LOGISTICS COMPANIES IN NAIROBI

1.	ABC International Cargo Logistics Ltd
2.	Able View Agency
3.	Afri Log Ltd
4.	Africair Managemant & Logistics
5.	Alliance Logistics (K) Ltd
6.	Alpha Logistics (K) Ltd
7.	Ankester Logistics Ltd
8.	Arcpro Logistics Ltd
9.	Ascom Freighters & Logistics Ltd Kenya
10.	Atlantic Logistics International Limited
11.	Bax Logistics Ltd
12.	Bluewave Logistics Services Ltd
13.	Bluewave Logistics Services Ltd
14.	Bluewave Logistics Services Ltd
15.	Bridgeway Logistics Services Ltd
16.	Damco Logistics (Kenya) Ltd
17.	Damco Logistics (Kenya) Ltd
18.	Dean Logistics Ltd
19.	Deep Sky Procurement & Logistics
20.	Deftech Logistics Ltd
21.	Delacom Services Co Ltd
22.	DHL Exel Supply Chain (K) Ltd
23.	East African Supplies & Logistics Ltd

24.	Empire Logistics
25.	Erin West International Logistics Agency
26.	Excellent Logistics Ltd
27.	Global Freight Logistics Ltd
28.	Global Logistics {e.a}solutions Ltd
29.	Global Outsourcing
30.	GTFAgility Logistics Ltd
31.	Hellmann Worldwide Logistics
32.	Intelligent Logistics Solutions Limited
33.	Interglobal Logistics Limited
34.	J Trevors Logistics Ltd
35.	JASPA Logistics Ltd
36.	Keywest Logistics Agency
37.	Lenbase Logistics Ltd
38.	Lg Electronics Africa Logistics Fze
39.	Logistics International
40.	Logistics Link Ltd
41.	Logwin Air & Ocean
42.	M & S logistics Ltd
43.	Mahek Parcels & Courier
44.	Management Services For Health
45.	Mara International Logistics
46.	Margitons Ltd

47.	Marts Logistics Ltd
48.	Mbio Logistics Ltd
49.	Middle East Africa Logistics Ltd
50.	Multi-masters Logistics
51.	Neoserve Logistics Ltd
52.	Newport Freight Logistics
53.	Ocean Alliance Logistics
54.	Overs Logistics Ltd
55.	Password Transport & Logistics Ltd
56.	PDS Logistics Ltd
57.	Pentagon Logistics Ltd
58.	Precise Logistics Ltd
59.	Pride Movers And Logistics Limited
60.	PrideM
61.	Priority Logistics Ltd
62.	Road Link Logistics Limited
63.	Royal Oilfield Logistic Services & Supplies
64.	Sas Logistics SDV Transami (K) Ltd
65.	SDV Transami Airport North Rd, Nairobi
66.	Speedex Logistics Ltd
67.	Spelling Trading Ltd
68.	Swift Global Logistics Ltd
69.	Techfreight Logistics Ltd
70.	World Cargo Logistics Ltd

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