

**CHALLENGES OF THE IMPLEMENTATION OF  
BUSINESS PROCESS OUTSOURCING STRATEGY AT  
THE EAST AFRICAN PORTLAND CEMENT COMPANY  
LTD IN KENYA**

**BY**

**ERICK NYAMBURI OBUDHO**

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## **DECLARATION**

I hereby declare that this research project is my original work and has not been presented in any other university for an award.

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

**REG NO: D61/64395/2013**

The research project has been submitted for examination with my approval as the university supervisor.

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

**Professor Zack B Awino, PhD;**

**Department of Business Administration,**

**School of Business**

**University of Nairobi**

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## **DEDICATION**

The research paper is dedicated to my late mother, Mary Akinyi Caleb for all the love and teachings.

## **ABBREVIATIONS AND ACRONYMS**

<b>ATM:</b>	Automated Teller Machine
<b>BPO:</b>	Business process outsourcing
<b>EAPCC:</b>	East African Portland Cement Company
<b>ICT:</b>	Information and Communication Technology
<b>ISO:</b>	International Organization for Standardization
<b>IFMIS:</b>	Integrated Financial management Information System
<b>IT:</b>	Information Technology
<b>ITES-BPO:</b>	Information Technology Enabled Service – Business process outsourcing
<b>OHSAS:</b>	Occupational Health and Safety Assessment Series
<b>PABX:</b>	Private Automated Branch Exchange
<b>RBV:</b>	Resource Based View
<b>SCM:</b>	Supply Chain Management
<b>TCT:</b>	Transaction Cost Theory

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## **ABSTRACT**

In the current rapidly changing competitive business environment, organizations endeavor to outperform one another. Thus the company must deliver greater value to customers or create a comparable value at lower cost or both in order to outperform competitors. Cost is generated by performing particular activities, and cost advantages arise from performing particular activity more efficiently than the competitor. Similarly, differentiation arises from the choice of activities and how they are performed. To enhance business processes performance with an objective of cost reduction and satisfaction of customers, many organizations are turning to Business Process Outsourcing (BPO) strategy. East African Portland Cement Company (EAPCC) is one of the organizations that have adopted BPO strategy as a move to gaining competitive advantage. EAPCC is the oldest cement manufacturing company in Kenya with its operations dating back to 1933. Over the years the market dominated by EAPCC has been invaded by competition resulting to reduction of market share to 18% and adoption of BPO strategy was to enable the organization regain its competitive advantage. The implementation of BPO strategy at EAPCC has not been smooth and therefore the study was to determine the challenges in the implementation of Business Process Outsourcing strategy at East African Portland Cement Company Limited. The case study method was adopted since it provides very detailed information about a particular subject that it would not be possible to acquire through another method. The study used primary data which was collected from the top management staff of EAPCC through face to face interview. The data collected was then analyzed through content analysis method due to its suitability to analyze data collected from Open-ended questions which are more difficult to code. The study established that business operations that are outsourced by East African Portland Cement Company are mining operation, security services, various consultancy services, transportation of raw materials and cement, sales of cement in Uganda, marketing, recruitments for senior position, printing services, garbage collection, fumigation and cloud based PABX. The study also established that outsourcing at EAPCC is driven by cost reduction, lack of internal expertise, quality of services, lack of adequate infrastructure and the need to focus on core business. The study concludes that the challenges facing the organization in implementation of business process outsourcing strategy are selection of the right vendor, loss of control, resistance from staff and leakage of information to other competitors. The implication of study is that East African Portland Cement Company Ltd and other organizations practicing business process outsourcing strategy or intending to adopt BPO strategy will use the study to benefit the organization by formulating strategies to counter the challenges of BPO strategy and enhance successful implementation of BPO. The policy makers will use the recommendations from the study to formulate policies that will enhance business process outsourcing strategy implementation in organization. The academicians would use that the study as a basis upon which further studies on Business Process Outsourcing could be researched. The study also serves as a source of reference for future scholars besides providing areas of further research on BPO.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Business Process Outsourcing (BPO) is the outsourcing of one or more specific business processes, methodologies, or functions to a third-party vendor and in some cases together with the IT that supports it. In business process outsourcing (BPO) the organization establishes a contractual relationship and hands over the responsibility of executing the business processes to a vendor. Business process outsourcing was initially meant for organization processes which formed non- core activities; however the current trends indicate that even the core activities such as Human resources, Finance, and Manufacturing can as well be outsourced. In this case the organization must strike an optimum balance between the number of activities to be outsourced and the number to be retained in-house. According to Lacity et al., (1996) this is described as selective BPO and is based on an analysis of costs and benefits, technology/infrastructure availability, and human resource availability. As a result outsourcing strategy is a necessary tool used by many progressive firms (Masaaki *et al.*, 2012).

In the recent years, there has been a significant increase in adoption of business process outsourcing as a strategy by organizations to achieve competitive advantage. The motivating force for the decision to outsource has been technological uncertainty, cost reduction; need to concentrate on core business activities, and the increasing quality and competition among similar service providers. Theories had been used to justify why organizations should adopt Business process outsourcing as a strategy to enhance their

competitive advantage. According to Mehta, Armenakis and Iran (2006), three perspectives are used to explain why companies outsource and these perspectives are transaction-cost view, the competence-based view, and the relational view amongst others. Transaction cost theory helps in explaining cost reduction strategy for outsourcing decisions while Competence-Based view is based on the firm's resources and capabilities that will give an organization a competitive advantage

The decision by East African Portland Cement Management to adopt business process outsourcing strategy is often made in the interest of reducing costs, reduce administration time and get the competitive advantage over competitors. Therefore, by outsourcing, the company can focus more on its core business. However, the gains of adoption BPO strategy at East African Portland Cement Company deteriorates gradually to a point where the company reverts back to carrying out the activities which were initially outsourced. It is for this reason that motivates the researcher to carry out an in depth study to determine the challenges faced by EAPCC in the implementation of BPO strategy.

East African Portland Cement Company like any other organizations is faced with stiff competition in manufacture and distribution of cement. In order for EAPCC to remain competitive in the market, strategies it adopts must be well formulated and implemented successfully. One of the strategies used by the organization is Business Process Outsourcing and this strategy is pursued by the organization in order to enable it to concentrate on core activities while at the same time improving performance so as to promote competitive advantage for future success. Just like any other strategy,

implementation of Business process outsourcing at EAPCC has its own challenges and therefore a careful consideration must be put in place to determine which activity to be outsourced. In EAPCC, manufacture of cement begins at the quarry where raw materials are mined and transported to the factory for manufacturing. For this process to succeed there are a number of support services that are required. These support services are not limited to provision of health services to staff, security and transport logistics and very few of them are outsourced.

### **1.1.1 Concept of strategy**

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson Scholes and Whittington, 2008). Therefore the strategy has an impact that is more likely to be felt in the entire organization rather than within a single section of the organization and also aims at creating the best fit between the organizations and its mission, on one hand and the organization's external environment on the other hand. In contrast, Mintzberg et al (2003) defined strategy from five perspectives they called 5ps: plan, ploy, pattern, position, and perspective. They stated that a plan provides the roadmap by which the firm intends to achieve its goals. A ploy refers to how a firm will manoeuvre its resources to attain its objectives. A pattern refers to decisions and actions that drive the firm forward, over time, towards its goal. The position a firm occupies gives it advantages in the access to the markets, clients and services. A perspective refers to the future of the firm and the understanding of its internal strengths and weaknesses to be able to steer towards the intended future state.

Every organization in existence is engaged in some activities designed to create products or services for sale or distribution to customers and beneficiaries. For these organizations to survive the ever changing business environment, the organization employs strategic management technique to continually adapt itself to these changing circumstances. The adaptation may involve altering the operation, expanding or altering market for the products just to mention a few. These adjustments are meant to satisfy and reward the stakeholders, pursue and fulfill the organization mission and also for survival. In the case of profit-driven organizations, the primary stakeholders are equity shareholders and therefore their interest must be taken care of as a priority. In order to satisfy these stakeholders, the organization must engage itself in a focused long term undertaking.

Organizations in a competitive environment frequently aim at strategies that can lead to gaining an advantage over competitors. Even if an organization has no competitor where they enjoy monopoly in the market, it should consider the internal and external environment interaction. Any change on the environment has an impact on the organization and therefore it would be necessary for the organization to implement strategies to make appropriate adjustments to accommodate the changes. These changes may include new compliance policies, procedure. Therefore for an organization to succeed in the completion with its rivals, it must do something that gives it an advantage in the eyes of the consumers of its products and services

Implementation of a strategy that can lead to a sustainable competitive advantage involves formulation of strategy, implementation and evaluation of strategy. Formulation of strategy is part of a strategic management process that comprises situation analysis and

formulation. Performing a situation analysis is a process of scanning the internal and external environment of the organization with an aim of identifying strength, weakness opportunities and threats to the organization. It also involves identification and evaluation of current mission, strategic objectives and strategies. Formulation of strategy produces a clear set of recommendations, with supporting justification that revises as necessary the mission and objectives of the organization. In the formulation process it is important to consider fits between resources plus competencies with opportunities, and also fits between risks and expectations (Dess, Gregory, Lumpkin and Marilyn, 2005)

The second phase is strategy implementation which is the process of allocating resources to support the chosen strategies and putting the formulated strategy to work. This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals. No strategy, no matter how brilliantly formulated, will succeed if it cannot be implemented. Once the strategy has been decided on, the key tasks to be performed, kinds of decision required has been identified and formal plans developed, management must provide the resources required for strategy implementation. The tasks should be arranged in a sequence comprising a plan of action within targets to be achieved at specific dates (Harrison and Pelletier, 2008). People and departments of the firm must be influenced, through incentives, constraints, control, standards, and rewards to accomplish the strategy. This creates a drive towards success of strategy implementation.

Strategy evaluation is the final stage in strategic management. It is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. Strategy evaluation is significant in developing inputs for new strategic planning, urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice (Pearce and Robinson, 2003). While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed into details. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

### **1.1.2 Business process outsourcing strategy**

In the development of new products, organizations typically perform most operational functions internally as vertically integrated entities. As the product becomes known to the market and competition increases, organizations come under pressure to become more effective and efficient. To be effective and efficient, the organization may put in strategies such as continuous improvement; business process outsourcing and process reengineering that would result to cost reduction. A relatively straightforward method to achieve effectiveness and efficiencies of processes is through business process outsourcing.

Business process outsourcing strategy is becoming increasingly adopted by many organizations in order to reduce cost. In some cases the outsourcing is concerned more with gaining access to technical expertise which may not be available in the outsourcing organization. Gaining a competitive advantage and also concentrating on the organizations core activities are some of the reasons why organizations adopt BPO as a strategy. In order to be competitive, organization need to get the best out of their outsourcing relationships in terms of costs and value addition. For many of business processes that can be possibly outsourced, there are several vendors willing to bid for the contracts and it is therefore important for clients to recognize that its bargaining power is probably the highest at the point of drafting and signing the contracts.

One of the advantages of BPO is efficiency with which the activities are carried out. The efficiency is achieved by outsourcing to vendors who have expertise and are specialized in their field. The outsourced vendors also have specific equipment and technical expertise, most of the times better than the ones at the outsourcing organization. Effectively the tasks can be completed faster and with better quality output. This allows the outsourcing organization to concentrate on core process rather than the non-core activities and therefore outsourcing the non-core processes gives the organization more time to strengthen their core business process.

The other advantage of business process outsourcing is sharing of risk. Outsourcing certain components of business processes helps the organization to shift certain responsibilities to the outsourced vendor. The outsourced vendor can easily plan for risk mitigation measures since they are experts in that particular business process. BPO also is



important in reduction of operational and recruitment costs. Outsourcing eludes the need to hire individuals in-house, hence recruitment and operational costs can be minimized to a great extent. Business process outsourcing also frees up outsourcing organizations in-house resources (infrastructure, manpower, etc.) from noncore activities, and they can instead be utilized in the development of core competencies and processes that could give the organization a competitive edge in the market.

The activities most easily outsourced are those that are resource intensive- especially those with high labor or capital costs, relatively discrete, require specialist competences and activities which are characterized by fluctuating work patterns in loading and throughput. The outsourcing decision is also subject to changes in markets, for which it can be costly to recruit, train and retain staff, and, subject to rapid changes in technology and requirement for expensive investment. Naumova (2013) classified factors influencing business outsourcing process into two groups – strategic and tactical factors. In order to identify processes that are strategic, the organizations need to be able to identify processes that differentiate it from its competitors in the marketplace, or processes that gives it the competitive advantage (Porter, 1996). The business processes that represent the organization's core competencies and have high strategic stakes are best performed in-house (Chakrabarty, 2009). In order to identify the core competencies, an organization needs to be very clear about where its own strengths lie and identify the processes that truly give the organization its business value.

### **1.1.3 Challenges of the implementation of business process Outsourcing strategy**

Business process outsourcing strategy is of enormous benefit to organizations which intends to gain a competitive advantage over its competitors and there are also risks or challenges associated with this strategy. Some of these challenges are hidden costs and unexpected outcome.

The biggest challenge facing most organizations is the decision of what to outsource and what to keep-in house (Dhar et al (2006). Once this decision has been made, organizations are also faced with the challenge of selecting the right vendor which is a very critical decision since it influences cost and quality of the services being outsourced. Factors like Lowering costs, improved productivity, higher quality, higher customer satisfaction, time to market, and ability to focus on core areas are some of the benefits of outsourcing of which if the decision on the choice of the vendor is not correct, the above objectives may not be realized.

In many instances, BPO client companies also share information with their outsourcing partners that may be of great interest to their competitor thus offering security risk to the outsourcing organization. Duening and Click (2005) explained that mitigating risks is a primary concern for any BPO initiative. It is therefore important for client companies to ensure that their BPO service providers adhere to the client's security policies and that all work done adheres to up-to-date security procedures. Duening et al (2005) advises that both client and service provider should also review their internet security policies.

Implementation of Business process outsourcing (BPO) strategy has resulted to occupational illnesses associated with stress to the workers involved. It creates more stress amongst workers due to the fact that they are forced to face a lot of physical, mental and moral or ethical related issues which are caused by such factors as excessive job demands, job insecurity, and lack of support for work-life balance (Sugumar et al. 2013). The study was examining the effect of work related stress of the BPOs employees at Chennai in Tamilnadu State and the study indicated that employees working under BPO were experiencing stress.

Collective bargaining and labour relations laws effective in the outsourcing location present another challenge to business process outsourcing ventures. For example, laws restricting an employer's right to terminate employees exist in many countries that are typical outsourcing destinations and failure to follow the appropriate process may result in fines for the client company. Sang (2010) also noted negative attitude of staff, poor monitoring and evaluation and interference by community as other challenges.

Mierau (2007) mentioned one of the challenges facing BPO as loss of control on the activities carried out by the company or organization contracted. This is attributed to the fact that the quality of personnel and work cannot be guaranteed. Corporations risk low quality work or massive delays in work because they are in the hands of the outsource service provider. Besides quality, companies also can lose the knowledge they require to function. If a service provider goes bankrupt, the firm could be in a dire situation. The company cannot even temporarily resume the outsourced roles because the internal knowledge has been lost.

#### **1.1.4 Cement Industry in Kenya**

The Kenyan cement manufacturing sector consists of five operating cement manufacturing firms of which four firms namely; Bamburi, Athi River Mining, Mombasa Cement and National Cement are privately owned, while East African Portland Cement is a parastatal controlled by the Government of Kenya. The industry currently has an annual grinding capacity of 5.1 million tons of cement with Bamburi Cement Company leading in cement production and sales.

Cement industry plays a vital role in the economic development of Kenya and cement demand is mainly driven by housing and other infrastructural constructions. The cement manufacturing process is capital intensive and consumes a lot of energy hence the need for efficient and effective business processes. The performance of the cement industry in East Africa has been negatively influenced by the challenge of cheap cement imports into its market and high cost of production majorly due to increased cost of power. These challenges forces cement manufacturing firms to adopt various strategies that will enable them gain competitive advantage.

#### **1.1.5 East African Portland Cement Company, Kenya**

East African Portland Cement Company is a manufacturer of cement and is located in Athi–River town, Machakos county 30km south of Nairobi. East African Portland Cement Company started as a trading company importing cement mainly from England for early construction work in British East Africa (now Kenya) as an agent of Blue Circle Industries of the United Kingdom. The Company was incorporated in Kenya in 1933 with the first factory in Nairobi's Industrial Area. The Company had one cement mill with an annual production capacity of 60,000 tons and used imported clinker from India for

cement manufacturing. Due to increased cement demand, there was need to increase production capacity and thus a plan to relocate the company to Athi-River was envisaged due to adequate expansion space allowing for increased output. In 1956, construction of the Athi- River facility started and the factory was commissioned in 1958 and consisted of a rotary kiln and a cement mill with a production capacity to 120,000 tons per annum.

Over the years, EAPCC greatly expanded its production capacity to the current capacity of approximately 1.3 million tons of cement per annum. EAPCC has invested heavily in land where raw materials required for the manufacture of cement are mined. The cement brand produced by EAPCC is Blue Triangle Cement, a symbol of quality and reliability and the distribution channel is through depots located in various major towns in Kenya and a subsidiary in Uganda. Growth, expansion and sustained profitability are the guiding principles of EAPCC's business model. Even though EAPCC has enjoyed monopoly over the years where the market share was 100%, several other companies have come into play reducing EAPCC market share tremendously. Today EAPCC is ranking third in market share after Bamburi and Athi - River Mining Co. at 18%. In an effort for the company to remain competitive, the organization has over the years attempted to put in different strategies.

The strategies that are adopted by EAPCC are to enable it regain its competitive advantage and lost market share. One of the strategies is Business Process outsourcing. This strategy enable the company concentrate and remain focused on areas of core competencies. The essence of Business process outsourcing strategy is to enables the organization to concentrate on core activities while the non-core activities or business

processes are outsourced. Other strategies adopted by East African Portland Cement Company are implementation of Quality Management systems such as ISO 90001 -2008 and OHSAS 18001:2007. In the quality management system, the company is committed to provision and delivery of high quality and reliable cement that consistently meet customer's expectation. The company is also in the process of implementing Total Productive Maintenance (TPM) to enhance performance and efficiency of the manufacturing plant.

## **1.2 Research Problem**

In the current rapidly changing competitive business environment, organizations endeavors to outperform one another. The company can outperform rivals if it can establish a difference that it can preserve. It must deliver greater value to customers or create a comparable value at lower cost or both. Ultimately, all differences in cost or price derive from the hundreds of activities required to create, produce, sell and deliver their products or services. Cost is generated by performing particular activities, and cost advantages arise from performing particular activity more efficiently than the competitor. Similarly, differentiation arises from the choice of activities and how they are performed. Activities then are the basic units of competitive advantage. Overall advantage or disadvantage results from all a company's activities, not only a few. To enhance business processes performance with an objective of cost reduction and satisfaction of customers, many organizations are turning to Business Process Outsourcing (BPO) to accomplish these objectives.

The process of production and distribution of cement by East African Cement company ltd, a number of business process are critical and labor/capital intensive while at the same time there are a number of vendors who have experience and capital investments to carry out these critical but important activities. Coupled by the need for the organization to beat the springing intense competition, it is eminent that business process outsourcing as strategy is absolutely inevitable. According to the study by Awino Z B and Mutua, J M (2014), it confirmed that Kenyan State corporations involved in outsourcing of Business process had a positive contribution to the firms' overall performance. Even though benefits of BPO has been proved to be a strategic factor that can give an organization a competitive advantage, EAPCC has been slow in implementation of this strategy. As a result EAPCC market share has been reducing over time to 18% in January 2015. It is therefore deemed that BPO as a strategy will enable the company to concentrate on core activities and delegate the non-core activities to a third party who will be able to perform them efficiently and effectively. In this study, it will therefore be established why EAPCC is lagging in implementation of BPO and also the relationship between business processes outsourced and the firm's financial performance.

Valuable insight into the general area of Business process outsourcing strategy has been provided by various researchers. A review of international studies shows that Sugumar, Kumaran and Raj (2013) studied health related challenges faced by employees working for organization implementing business process outsourcing strategy. Naumova (2013) did a study on factors affecting Latvian public administration decision to outsource information technology function. Rodríguez and Robaina (2006) carried out a review of outsourcing from the resource-based view of the firm while Chakrabarty (2009) studied

Strategies for business process outsourcing. Locally, Awino et.al (2014) carried out a study on the relationship between BPO and performance of Kenyan state corporations. Sang (2010) analyzed the experiences of outsourcing of services in Kenyan public universities with the aim of outlining the challenges, opportunities and lessons for future outsourcing initiatives. Machana (2014) studied outsourcing and operational performance of major petroleum marketing firms in Kenya while Maku and Iravo (2013) studied effects of outsourcing on organizational performance at Delmonte Kenya Limited. No study has covered in-depth challenges experienced in implementation of Business process outsourcing strategy for a manufacturing organization.

This study therefore aims at bridging these gaps in view of the fact that business process outsourcing strategy implementation is a key component in realization of competitive advantage in an organization. The study will identify challenges that are faced in the implementation of this strategy at East African Portland Cement Company. Therefore this study seeks to answer the following research question: What are the challenges faced by East African Portland Cement Company in Kenya in the implementation of business process outsourcing strategy?

### **1.3 Research objective**

The objective of the study was to establish the challenges of the implementation of business process outsourcing strategy at East African Portland Cement Company in Kenya.



#### **1.4 Value of the study**

The study was useful to the company in developing policies on Business process outsourcing to enhance the firm's financial position and at the same time proving the organization a competitive advantage over its competitors in production of cheap and quality cement and cement products.

The study also had a practical contribution since it was intended to provide information on the challenges of implementation of Business process outsourcing at EAPCC. The findings were useful to other manufacturing state corporations to manage challenges that arise when implementing BPO strategy to enhance their performance.

The study was also beneficial to scholars and a source of reference to future researchers on the same topic and other related topics. This due to the fact that the study contributed to the body of knowledge and stimulated further research in the area of Business Process Outsourcing.

#### **1.5 Chapter Summary**

The chapter focused on Business process outsourcing as one of the strategies adopted by East African Portland Cement Company Ltd in order to gain competitive advantage. The concept of strategy, formulation, implementation and evaluation was also covered.

The significance of Business process outsourcing and challenges of the implementation of Business process outsourcing strategy were also discussed in this chapter. The chapter also covered the research problems, research objectives and the value of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers literature review on Business process outsourcing. It includes a review of various related studies conducted by researchers and theoretical foundation of outsourcing.

#### **2.2 Theoretical foundation**

The theoretical review discusses the theories that are attributed by other researchers, authors and scholars and are relevant to business process outsourcing. Organizations outsource for either economic or strategic reasons. Economically, outsourcing is implemented as a strategy by organizations when the activities that are being outsourced can be performed by the vendor at a lower cost while strategically; outsourcing is attractive when organizations have capacity and/or capability constraints that prevent them from gaining a competitive advantage to serve the market. The rationale has been supported by theories that form a framework for Business process outsourcing. The theories had been used to justify why organizations should adopt Business process outsourcing as a strategy to enhance their competitive advantage. This study specifically discusses the resource based view theory, transaction cost view, and Knowledge based view, competence-based view, relational view and game theory.

### **2.2.1 Resource based view**

The resource-based view (RBV) is an economic theory, which discusses the strategic resources available to a firm. The main principle of the RBV is that, the basis of a sustained competitive advantage lies in the application of valuable resources, which are at the firm's disposal (Wernerfelt, 1984; Rodríguez and Robaina, 2006). The RBV considers that the firm must possess unique resources that enable it to achieve competitive advantage. Resources need to be valuable, rare, non-substitutable and non-imitable. Resources therefore requires to display each of the above four characteristics to be a possible source of a sustainable competitive advantage (Barney, 1991). This advantage can be attained if the strategy being implemented is value-creating, and not being implemented by present or future possible competitors. He also stated that that sustainable competitive advantage is a result of possessing immobile resources that permit clear product or service differentiation. However, not all resources have the potential to be a source of sustainable competitive advantage for the firm.

Resource based view consider that resources can be exploited by means of contracts (Barney 1999), and so this perspective forms a theoretical framework that assists in the decision-making about which activities to perform in-house and which to outsource. Resource Based View (RBV) has been employed for outsourcing decisions, shifting the attention from transaction costs and opportunism to competitive advantage. The key principle in RBV is that, unique organizational resources are the real source of competitive advantage and has become a useful framework to outsourcing some of the organizations functions. Within RBV, the core competences approach is one of the most powerful frameworks to explain why companies turn to outsourcing and it suggests that

an organization should invest in those activities constituting core competences and outsource the rest. Resource based view also points out that improved performance in a firm can be achieved through focusing on those resources that provide the core competences.

### **2.2.2 Transaction-Cost View**

The transaction-cost view is where the decision to outsource is determined by the relative transaction and production costs associated with the process or service. Transactional costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers. The goal of any organization is to these reduce cost and to achieve cost efficiency (Zack and Singh, 2010).

According to Dhar and Balakrishnan (2006), production costs and coordination costs are the only costs involved for any service or to produce any product. Production cost is the cost incurred to make the product or to provide the service and it includes the cost of labor, material, and capital. Coordination costs include monitoring, controlling and managing the work internally. For the outsourced process, the coordination costs are called transaction costs. Manhnke et al, (2005) stated that the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process. The decision to outsource is to reduce transaction costs as much as possible and thus the transaction cost theory (TCT) perspective is useful in examining the contributions to transaction costs, and how these might be reduced.

### **2.2.3 Knowledge based view**

A knowledge-based theory of the firm is used to identify circumstances in which collaboration between firms is superior to either market or hierarchical governance in efficiently utilizing and integrating specialized knowledge (Zack and Singh, 2006). The knowledge-based view (KBV) adds a valuable perspective to the theories; Resource Based View and Transaction Cost.

In Knowledge Based View, an organization's products or services are the result of applying value-creating knowledge. Thus the knowledge the organization possesses, develops, and enhances represents the basis for its ability to compete (Zack, 1999). Organizations are then characterized not by their existing range of product, but by the knowledge they apply to produce those varieties of products. The knowledge that an organization has which enables coordination, integration and application of resources, is the most unique and inimitable resource (Grant, 1996). This uniqueness results to knowing more than competitors which results to a strategic advantage, even if the organization's underlying tangible resources are not unique (Romer, 1992). And a strategic knowledge-based advantage can be sustained because knowledge is not easy for competitors to imitate (Reed and DeFillippi, 1990).

Knowledge Based View to outsourcing is also based on the premise that knowledge is a key strategic resource and that learning is required to sustain a knowledge-based competitive advantage (Zack, 2005). According to Ernst (2000), when a firm outsources an activity it also outsources the learning associated with that activity. In the outsourcing decision, there is need to factor in costs of any forgone learning, knowledge protection and transfer to client.

#### **2.2.4 Competence-based view**

Competence-Based view is based on the firm's resources and capabilities that will give an organization a competitive advantage. The essence is that core competencies should be kept in-house while the other things that the organisation does which are not deemed core, or critical to its mission or function, should be considered for outsourcing without any loss to future requirements in expertise. In order to maintain a sustainable competitive advantage, the organization competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the business processes. Therefore vendors' competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Rodríguez and Robaina, 2006).

The core competency perspective is useful in prompting serious consideration about the functions which are truly cost-effectively done in-house, and those which could be outsourced. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. However, the meaning of the term core competence is not clearly understood since terms such as resource, capability and competence are used interchangeably by researchers (Ozbag, 2013). A firm's resources can be defined as any production factors that are available to the firm and they are classified into five categories; financial, physical, human, technological and reputation. The first two constitute the firm's tangible resources, which are easy to assess and identify, while the others are intangible resources, which are assets with sufficient potential to achieve competitive advantage. The resources and capabilities are therefore complementary in order to sustain competitive advantage.

### **2.2.5 Relational View**

The Relational View balances between the transaction-cost and competence-based views. It explains how firms gain and sustain competitive advantage within inter-organizational relationships and therefore this perspective focuses on creating value through different forms of partnerships (Dyer and Singh, 1998). Relational view has been used to explain how organizations choose their future outsourcing partners and preferred type of the relationship they want to engage in. According to Wong (2011), the relational view integrates the perspective of resources-based theory and relational network theory to explain the competitive strategies of firms.

Relational view argues that organizations can develop valuable resources by carefully managing relationships with external entities including suppliers, customers and government agencies. Therefore an organization can gain and sustain a competitive advantage by accessing its resources in a way that spans the organization boundaries (McIvor, 2005). Relational view has been also utilized in studying the Transition, Managing relationship and reconsideration phases. This makes the relational view to be the theory that has been applied in the research of all the outsourcing process phases.

The relational view has a relation to resources-based theory and it argues that an individual firm is often unable to cope with the challenges from competition by its own resources and capabilities. Therefore, except for enhancing their own core competencies, firms also have to seek out co-operations with other firms to establish relational networks for mobilizing external resources (Wong, 2011). He also argued that competitive advantages are not only derived from the internal resources but also from the external resources in the relational networks

### **2.2.6 Game theory**

Game theory is the formal study of decision-making where several players must make choices that potentially affect the interests of the other players (Turocy, 2001). Game theory as applied to outsourcing uses the idea that it may make sense for one party to cheat on the other, but whether this is a successful strategy in the long-term depends on the reaction of the client. The game theory perspective is a reminder that it is not necessarily in your partner's best interest to co-operate with you. The strategies of players (client and supplier) depend on their beliefs concerning the motives of the other, but the information game may be asymmetric in that one can cheat on the other.

It is a known fact that the outsourcing firm and the outsourced organization prefer to make more profits by signing a service contract that is the most favorable. However, a participant's best result cannot be achieved without considering the possible decision to be made by the counterpart. Game theory is the most popular means of modeling the conflict between two or more decision makers. The original firms compete with one another in terms of in-house quality levels and product flows, whereas the contractors, aiming at maximizing their own profits, engage in competition for the outsourced production and distribution in terms of prices that they charge and their quality levels (Nagurney and Li, 2015). According to Erhun and Keskinocak (2003), the use of game theory along with other tools and the managers' business experience leads to significant improvement in the managers' understanding of the dynamics in business interactions and results to higher quality and informed decisions.



### **2.3 Business process outsourcing**

According to Kurien (2010), the origin of outsourcing dates back to the year 1776, when Adam Smith spoke of the virtues of division of labor. In justification for division of labor it was argued that, when an individual performs a specific task, he gains the necessary skill that eventually raises the productivity and total production. Hence, the application of Smith's idea of outsourcing or contracting out could be viewed as a measure of total factor productivity across firms.

Mehta, Armenakis and Iran (2006) stated that, traditionally, outsourcing was a means to lower costs of production and today economies of scale are cited as a major motivation to outsource. The reductions in costs were associated with cost-effective access to specialized skills and saving on overheads. The decision to outsource is determined by the relative transaction and production costs associated with the process or service. According to Mehta et al (2006) BPO decisions may be driven by any one or a combination of the theoretical perspectives. BPO has also expanded to include Information Technology based outsourcing (ITES-BPO) and also Knowledge Process Outsourcing (Wamae et al 2009).

One of the major advantages of outsourcing is that it enables a company to respond quickly to changing market needs (Mierau, 2007) which is of great importance for an organization to gain a competitive advantage in modern business life. Mierau also indicated that BPO if managed well can open new opportunities and lead to success, or end in disaster if not managed well. With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as

products or services are produced more effectively and efficiently by outside suppliers. Thus the need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competences and capabilities (Cicek and Ozer, 2011).

Human Resources business process outsourcing has been in place for a while with processes such as payroll. Human Resources BPO has resulted to improved service delivery, customer satisfaction and profit margin which allows organizations to invest in technology and processes that supports continuous improvement (Strodtman, 2012). This has been necessitated by the considerable effort made by the providers to standardize service delivery processes and underlying technology that supports the process. Organizations have also recognized that standardization improves the reliability and quality of the services, as well as cost reductions.

Sang (2010) analyzed the experiences of outsourcing of services in Kenyan public universities with the aim of outlining the challenges, opportunities and lessons for future outsourcing initiatives. The study revealed that through outsourcing, the universities were able to cut costs, improve efficiency and meet their rising demands for greater accountability. Outsourcing requires a comprehensive evaluation and planning by management in order to ascertain whether or not outsourcing will result to cost efficient, timely and overall quality in meeting the university's goals and objectives.

From the global perspective, outsourcing allows for the relocation of inefficient parts of the production process to another country where they can be produced cheaply, freeing up resources so that the industrialized country can specialize in the product and in which

it has a comparative advantage (Rugman and Collinson, 2006). As transportation, communication, and other interaction costs fall, companies have continually sought to move business activity to areas with cheaper, and less restrictive, labor markets. In this way, outsourcing leads to gains from trade and improves economic welfare for all countries involved in the global division of labour. This argument is in support of the theory of absolute advantage on international trade.

According to Rajan and Srivastava (2005), a country's comparative advantage in a final product is a weighted average of its relative efficiency across constituent activities and the country can improve its overall competitive edge by obtaining from abroad the components in which the country is less efficient at producing. Rajan et al (2005) has also indicated that both industrialized and developing countries stand to reap substantial gains because of global outsourcing in services. They attributed to efficiency gained by industrialized countries by allowing them the opportunity to specialize in areas of their core competencies. Business process outsourcing also presents significant benefits for developing countries by opening up new export, growth and employment opportunities in various trades.

## **2.4 Empirical studies and Knowledge gaps**

Dhar et al (2006) carried out research on the risks, benefits, and challenges in global IT Outsourcing. In this study IT Outsourcing was defined as an act of delegating or transferring some or all of the IT related decision making rights, internal activities and services to external providers, who develop, manage, and administer these activities. The study reiterated that many large organizations are increasingly outsourcing their IT functions due to factors such as lowering costs, improved productivity, higher quality,

higher customer satisfaction, and ability to focus on core areas. The study also elaborated on the main risk factors of outsource IT functions where hidden costs, transition and management cost were the top issues. The study did not capture in depth the challenges faced in implementation of Business Process outsourcing since the study was a comparison of two firms.

Mufutau and Mojisola (2013) said the most crucial component in outsourcing is the selection of the right sources. The right source provides the right quality, on time, at the right price, and with right level of service. Due to the fact that outsourcing is a long-term partnership with a single source of supply chain and therefore all the standards must be met. They also said that the benefit of such partnership is many, but the risks are great and therefore a careful selection of suppliers and the professional management of the relationships within the supply chain are very essential.

Sang (2010) examined outsourcing practices in Kenyan public universities to investigate the challenges and opportunities presented by outsourcing activities in the universities. The finding was that the universities involved in outsourcing had some general policy statements on outsourcing but without known regulatory framework. He also identified Security and Cleaning as the major activities currently outsourced in public universities while the least outsourced activity was catering. The study established that outsourcing enables cost reduction and improves efficiency. The major challenges of outsourcing at public Universities included negative attitude of staff, poor monitoring and evaluation, non-cooperation by students to the outsourced and interference by community. The study affirmed that for a university to successfully outsource its functions, it requires proper

evaluation and planning. Though the study by Sang (2010) enumerated challenges in Business process outsourcing at Public Universities, the findings cannot be replicated to other organization due to unique nature of every organization. The study was also based on a learning institution and not manufacturing organization.

Machana (2014) studied Outsourcing and operational performance of major petroleum marketing firms in Kenya and proved that companies that outsource services experience increase productivity and have adequate time to concentrate on more important areas of its core business. He also indicated that outsourcing results to loss of control of activity by the outsourcing organization, the transfer of sensitive information, fluctuation in quality and increased prices as some of the challenges.

In the study of BPO and performance of Kenyan state corporations by Awino et al (2014), it was concluded that BPO as one of the initiatives towards performance improvement contradicts the competency based view that core activities should be retained in-house and only those functions that are non-core should be considered for outsourcing. In as much as the study proved that the secondary activities should be outsourced, the study also brought about another perspective indicating that it's not only the secondary activities that can be outsourced but also the non-critical primary activities. Even though the study established that BPO has a major impact on corporate performance, Awino et al (2014) strongly recommended a thorough audit to properly understand and identify the activities to outsource at an appropriate time.

In the assessment of the performance and growth potential of the Indian BPO industry in the light of globalization of the world economies, Kurien (2010) has shown that globalization has helped improve living standards and promoted cultural diversity and global integration. He also indicated that rapid social and cultural dynamics due to influence of western culture and values also generated anxiety and discomfort among certain religious and conservative members of the Indian society. In his study, social and cultural dimensions of outsourcing were not exhaustively captured.

Immonen (2010) identified challenges of outsourcing systems integration by examining systems integrator service offered to the public sector. He classified the changes into two categories; external and internal challenges of outsourcing systems integration. The external challenges related to the characteristics of the service and aspects of human behavior, which combined with outsourcing, required long lasting relationships. However, long lasting relationships are challenging due to competitive bidding. This makes outsourcing difficult in the first place. The internal challenges were due to lack of capabilities held by each party or shared between them. Most of the capabilities required for successful service production are shared because of the co-creative nature of the service. He also stated that from skills perspective, interpersonal and communication skills are more critical than technical skills

Barako and Gatere (2008) carried out a study on Outsourcing practices of the Kenyan banking sector. In the study finding, Automated Teller Machine (ATM) services were the most outsourced function in the sector, while customer account processing was the least outsourced function. Banks associate outsourcing activities with high reputational,

operational, strategic and contractual risks. They indicated that outsourcing benefits were freeing of resources, cost reduction, access to specialized vendors, focus on core competence, flexibility and improved services. According to the study, bank size measured as total asset was significantly associated with outsourcing decisions while banks performance measured as Return on Assets and ratio of Non-Performing Loan was not statistically associated with outsourcing decisions. The study concluded that the size of the bank is a significant determinant of outsourcing decisions.

Mehta, Armenakis and Iran (2006) in their study on Challenges and Opportunities of Business Process Outsourcing in India identified identify managerial challenges and opportunities faced by business process outsourcing (BPO) firms in India. In the study it was revealed that human resources- and organization-related challenges as the most critical issues.

Kiptoo (2012) carried out a study to establish implementation challenges of BPO strategy at the Ministry of Transport in Kenya. The researcher adopted a descriptive case design. From the study he established that lengthy bureaucratic payment processes was a major challenge in the implementation of BPO within the ministry. This often led to delayed payment of suppliers who became impatient and unwilling to transact with the Ministry in further transactions. He also established that there was also lack of Integrated Financial management Information System (IFMIS) Control in the BPO process in that slowed the transaction process.

Maku and Iravo (2013) studied effects of outsourcing on organizational performance at Delmonte Kenya Limited. The study was to investigate the level of outsourcing at Delmonte Kenya Limited, establish the extent to which outsourcing has contributed to focus on core competence and to determine the link between outsourcing and accessibility to modern technology and expertise. The finding showed that outsourcing has enabled the company to have greater access to Modern technology and expertise. Also from their findings of the study, outsourcing has helped improve the organizations performance through improved focus on core competences. However from the study, the research objectives were too broad to enable realization of accurate findings.

Chakrabarty (2009) carried out an analysis of alternatives, opportunities and risks in Business Process Outsourcing Strategies. In his discussions he attempted to provide an aid to decision makers who face the great dilemma of whether to insource or outsource a process and additionally how to handle outsourcing to offshore locations. He also identified the risks and opportunities associated with the numerous strategies related to outsourcing and offshoring alternatives, business process migration, contracting and alliance building, the role of the vendor, the nature of the relationship, multivendor relationships.

Wong (2011) studies the relational View of Resources-based theory, a case of Internationalization of Li & Fung Group. In the study he found that the relational view has a relation to resources-based theory and he argued that an individual firm is often unable to cope with the challenges from competition by its own resources and capabilities. Therefore, except for enhancing their own core competencies, firms also



have to seek out co-operations with other firms to establish relational networks for mobilizing external resource. He also argued that the sources of competitive advantages are not only from the internal resources owned by a firm itself but also from the external resources in the relational networks.

Dyer and Singh (1998) also studied the relational view: Cooperative strategy and sources on Inter-organizational competitive advantage. In their study they suggested that a firm's critical resources may span beyond the firms boundaries and may be embedded on the inter-firm resources and routines. They argued that an increasingly important unit of analysis for understanding competitive advantage is the relationship between firms. They identified four potential sources of inter-organizational advantage which are relation specific assets, knowledge sharing routines, complementary resources/capabilities and effective governance.

## **2.5 Chapter Summary**

The chapter covered theoretical foundation of Business process outsourcing strategy. Theories discussed were Resource based view, Transaction cost view, Knowledge based view, competence based view, relational view and game theory. The theories were discussed in relation to Business process outsourcing and gaining of competitive advantage.

The chapter also had a review of various related studies conducted by researchers on Business process outsourcing strategy. The review of empirical study covered both local and international studies. In this section, knowledge gaps were clearly identified and theoretical foundation of outsourcing.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discussed the methodology that was adopted by the researcher in carrying out the study. The chapter presents the research design, data collection technique and the procedure in data analysis

#### **3.2 Research Design**

According to Kothari (2004), research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose. The researcher plans to adopt a case study method in order to get in-depth information on the challenges of the implementation of business process outsourcing strategy at East African Portland Cement Company.

A case study provides very detailed information about a particular subject that it would not be possible to acquire through another method. Case studies generally study a single person or a group of people and therefore are the best method of study to get in depth information in a particular context without generalization. The importance of a case study is also emphasized by Kothari (1990) who acknowledged that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

### **3.3 Data Collection**

This study involved collection of primary from the organization. Primary data is the first hand information from the respondents. The primary data was collected from the senior management staff of EAPCC through interviews. The interviews were directed specifically to Heads of departments who are involved in formulation and implementation of Business process outsourcing strategy in the company. The departments involved are Production, Sales, Human resources, ICT, Finance, strategy and Supply Chain. This cadre of management is also more knowledgeable on the research problem at hand hence expected to give reliable information.

In this case study, a face to face interview method was used in data collection since it provided in-depth data which is not possible to get using a questionnaire. The interview guided against confusing the questions since the interviewer could clarify and explain the questions and the interviewer convinced the respondents about the importance of the research thus, respondents gave honest and more information. The confidentiality of the responses from the group was assured to enhance openness and freeness in sharing of their sentiments and experiences.

### **3.4 Data Analysis**

This section discussed the technique that was used to analyze data. According to Cooper and Schindler (2006), data analysis begins immediately after data collection and ends at the interpretation and processing of the data. The raw data was analyzed through content analysis. Content analysis is a flexible method and is extremely well-suited to analyze data collected from Open-ended questions which are more difficult to code since answers are not prepared in advance. Use of content analysis is also cost effective. Materials

necessary for conducting content analysis are easily and inexpensively available thus making it a cost effective method. Content analysis uses preselected sampling units to produce frequency counts and other insights into data patterns.

The main idea in qualitative content analysis is to preserve the advantages of quantitative content analysis as developed within communication science and to transfer and further develop them to qualitative-interpretative steps of analysis. Content analysis is defined as the use of replicable and valid method for making specific inferences from text to other states or properties of its source (Krippendorff et al., 1969). To carry out effective analysis, written or recorded material was analyzed step by step, following rules of procedure, creating the material into content analytical units. The aspects of text interpretation, following the research questions, were put into categories, which were then revised accordingly through iteration process within the process of analysis and the results was subjected to reliability and validity checks.

### **3.5 Chapter Summary**

The chapter discussed into details the methodology that was adopted by the researcher in carrying out the study. In the research methodology, research design, data collection technique and procedure used for data analysis was discussed.

Data collection was through a face to face interview of EAPCC heads of departments. An interview technique was chosen since it provided in-depth information which is not possible with a questionnaire. The chapter also discussed was data analysis technique through content analysis.

## **CHAPTER FOUR**

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

#### **4.1 Introduction**

This chapter focuses on data analysis, interpretation and presentation of the data collected in the study. The purpose of the study was to determine the challenges of the implementation of Business process outsourcing strategy at East Africa Portland Cement Company Limited in Kenya. Data was collected through interview of the Heads of Departments involved in Business process outsourcing as was set out in the research methodology. These departments were Production, Human resources Management, Supply Chain, Strategy, ICT, Sales and Finance. All the seven respondents targeted participated in the interview making a response rate of 100%. The data was then analyzed through content analysis.

#### **4.2 The Business Processes Outsourced by the East African Portland Cement Company**

The major services that the East African Cement Company have outsourced are mining operation, security services, various consultancy services, transportation of raw materials and cement, sales of cement in Uganda, marketing, recruitments for senior position, printing services, cloud based PABX, fumigation and garbage collection. The need to outsource any business process or service are initiated by user department and facilitated by supply chain department who carries out search for the right outsourcing vendor.

The main reason for Business process outsourcing at East African Portland Cement is cost reduction and in some cases lack of internal expertise. The respondents said that through business process outsourcing, the organization is able to reduce its operations cost by engaging vendors with experience and expertise in executing the activities that are outsourced effectively and efficiently. The efficiency of executing the outsourced activities was also attributed to the effective infrastructure that the vendor has. The interviewees affirmed that cost of carrying out the above services by EAPCC was high as compared to the external vendors who have specialized in offering the same services and therefore cost effectiveness of outsource was a the principal justification for outsourcing

Some of the interviewees also indicated that Business process outsourcing enables the respective sections to concentrate on the core business. The core business for EAPCC is manufacture and sale of cement and cement products. Through the interviews it was established that EAPCC outsource in order to realize efficiency in the production process and effectiveness in order to increase productivity/performance. Thus, the need to focus on core activities was a major motivating factor for EAPCC to outsource non-core processes.

It was also noted that Business process outsourcing also helps EAPCC in the transfer of business risk to the third party who is the contracted service provider. Outsourcing certain components of business processes helps the organization to shift certain responsibilities to the outsourced vendor. The outsourced vendor can easily plan for risk mitigation measures since they are experts in that particular business process.

The respondents also indicated outsourcing of consultancy services is motivated by the need to gain quality improvement and ensuring timely completion of projects. Through consultants the employees of the organization also gain new knowledge that helps the organization in implementation of similar or related projects in future. It was also determined that it is only through consultancy that specialized skill that is not available within the organization can be obtained. Human resource department also outsource recruitment of senior positions from Human resource consultants. This enables the organization to hire staff with competency that are required for the positions and through this the company has been able improve on performance and gaining competitive advantage.

#### **4.3 Challenges of BPO at the East African Portland Cement Company**

The implementation of business process outsourcing strategy though has a number of advantages as was indicated by the interviewees, the success rate was rated fair by the respondents. The reasons for fair rating were the challenges experienced in the implementation of this strategy.

##### **4.3.1 Selection of the right vendor**

One of the challenges in the implementation of Business Process Outsourcing was selection of the right vendor to offer the service. This was attributed to procurement procedure where the firm with lowest bid and also meets the minimum requirements is to be awarded the contract to offer the services. It was also pointed out that response to the floated tender does not always attract the right and competent bidders making it difficult to get the right vendor.

In getting the right vendor, the interviewee indicated that one of the bottlenecks was Public Procurement and Disposal Act, 2005 which was enacted by the parliament to promote competition and ensure that competitors are treated fairly; promote the integrity and fairness in the procurement process. The interviewee stated that single sourcing from a vendor with required competencies where the services are not unique contravenes the Act. This forces the organization to place a tender where tenderers respond with their bid prices. In this case the selection process becomes difficult since what the bidders claim they can achieve usually is not the case. The interviewee stated that in majority of cases the bidder with the lowest in price and meets the minimum requirement is awarded.

The interviewee reiterated that in many occasions the services offered fails to meet the expectation of the organization in achieving the benefits of business process outsourcing. In such cases the respondents indicated that the termination of outsourcing contract is usually difficult due to penalty clauses in the event that the outsourcing firm want to exit from the arrangement.

#### **4.3.2 Loss of control**

The other challenges faced by East African Portland in the implementation of business process outsourcing BPO is loss of control on the activities carried out by the company or organization contracted. According to the respondents, loss of control is attributed to the fact that the quality of personnel and work cannot be guaranteed. The organization risk low quality work or massive delays in work because they are in the hands of the outsource service provider.



Besides quality, the respondents also noted the risks that the organization is subjected to by relying on one supplier or vendor. If a service provider goes bankrupt, the firm could be in a dire situation. The company cannot even temporarily resume the outsourced roles because the internal knowledge had been lost.

The respondents also stated that outsourcing key processes in many instances result in the loss of direct managerial control of the process. Outsourcing service provider is always allowed to operate without strict follow-up as opposed to when the business process was being executed internally. Although processes are customized to meet the specific needs of the organization, discrepancies usually occur early in the business relationship between a BPO provider and East African Portland Cement company.

#### **4.3.3 Resistance from staff**

Respondents pointed out that employees at East African Portland Cement Company have always demonstrated discomfort with outsourcing of some of the non-core business processes. This is attributed to the anticipated loss of employment that results from outsourcing. The resistance has been manifested through protests and outright disclosure to management by the organization's union officials.

Resistance by staff has resulted in reduction of speed at which the organization implements Business process outsourcing strategy. As a result some of the non-core business processes such as cleaning services, clinic operation and staff canteen operations are still being carried out by the organization. As a result of this the overheads are still high due to high number of staff required to sustain the operations in sections where outsourcing has not been implemented.

#### **4.3.4 Leakage of information**

Leakage of information is a major challenge to sales and ICT department. According to the interviewees, the organization outsourced to carry out the activities may leak the sensitive data and information to the competitors thus exposing the organization's strategy. The respondent also noted that leakage of information is also a threat to East African Portland Cement Company Security and Confidentiality.

According to the respondents, challenge of information leakage has been manifested in the form where formulated strategy leaks to the competitors through the organization outsourced to provide services to EAPCC before implementation commences. The interviewee stated that in some instances the competitors implements the strategy ahead of EAPCC in the event that there are delays in the actual implementation thus making EAPCC loose in gaining the intended competitive advantage.

#### **4.3.5 Cost escalation**

Cost escalation is another challenge experienced by EAPCC in the implementation of Business process outsourcing strategy according to the respondents. The respondent attested to the fact once the contract has been signed with the outsourcing company that will cover the details of the service that they will be providing, anything not covered in the contract usually form a basis for additional charges.

Interviewers attributed the escalation of cost to changes in technology and the dynamics of the market that forces the contract to be varied. The respondents affirmed that in some instances the cost of outsourcing would be higher than when the process is carried out internally due to overlooking of hidden costs.

The interviewees also indicated that the outsourced companies in some instances charge much higher than what they charge to other firms. The respondents said that though cost is a challenge, it is worth to outsource due the fact that the value and quality of the product are always better than when done internally and also due to risks and flexibility benefits of outsourcing

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

The objective of the study was to identify the challenges of implementation BPO strategy at the East African Portland Cement. From the research findings presented above, one of the challenges was selection of the right vendor to offer the service. This concurs with the findings of Mufutau and Mojisola (2013) where they said that the most crucial component in outsourcing is the selection of the right sources.

In identification of vendors to provide BPO services, the customer's spectrum of possible vendors will depend on the particular process under consideration as well as the scope of the outsourcing. The customer may consider one vendor to simply continue the operation of an existing process service but another for a more complex outsourcing that requires the development, implementation, and management of new methodologies and/or technologies. Another factor to consider when selecting possible vendors is the geographic scope of the outsourcing. For multinational transactions or transactions in foreign countries, the customer should identify vendors with resources in the locations under consideration for outsourcing (Halvey and Melby, 2007)

The difficulty in getting the right vendor is due to bureaucratic procurement procedure that creates a bottle neck in getting the right vendor even when the right vendor is known. The guiding principle in vendor selection at EAPCC is the selection of the vendor who meets the minimum requirements at a cheaper cost. This does not necessarily translate to quality output. According to Awino and Mutua (2014), wrong selection of vendor is caused by failure of outsourcing firms to undertake due diligence to verify the capacity of the service providers. They also indicated that writing a poor contract that has no provision for setting expectations and commitments is also a factor that affects vendor's performance.

Loss of control as a one of the challenge in the implementation of Business Process outsourcing is in agreement with the study Ang and Cummings (1997). Loss of control is attributed to the fact that the quality of personnel and work cannot be guaranteed. The organization risk low quality work or massive delays in work because they are in the hands of the outsourced service provider. Loss of control is a major risk to organization creating over reliance on one supplier or vendor. If a service provider goes bankrupt, the firm could be in a dire situation. In some cases the company cannot even temporarily resume the outsourced roles because the internal knowledge had been lost.

Loss of control as a challenge is in an agreement with agency cost theory. Essentially, the company faces the dilemma where control is divorced from ownership (Perunovic and Pedersen, 2007). The outsourcing vendor controls the activity, while the outsourcing firm "owns" the result. These agency costs raise a significant impediment to business outsourcing and are a major reason why firms choose to keep a business process within

the organization. A business process outsourcing sometimes results to transfer organization's assets and employees to an outsourcing vendor-who will continue to use these resources to conduct economic activity on behalf of the client while in other cases, the existing assets and workers are replaced with those of the vendor. This is in agreement with Awino et al (2014) where they attributed loss of control of the outsourced activity to outsourcer lacking capability to manage the vendor occasioned by lack of able managers. Business process Outsourcing thus generate agency risk under a very familiar logic: the entity that controls a business activity does not ultimately "own" the economic result. The loss of control and agency cost risk can be reduced through benchmarking and use of multiple vendors. Chakrabarty (2009) also states that loss of control of the outsourced business processes can be reduced through joint venture to ensure that the vendor uses its best expertise to bring in operational efficiencies. The organization should also be increasingly putting in place monitoring mechanisms to reduced agency risk. EAPCC can also use of interlocking contracts, detailed service level agreements, and liberal exit rights.

The study revealed that resistance from staff is an impediment to successful implementation of business process outsourcing strategy. This is in agreement with the study by Sang (2010). The resistance is due to the anticipated loss of employment that results from outsourcing. Organizations provide employees with a sense of identification and feelings of security and belonging. When these are disrupted, employees, as stakeholders, may feel resentful and retaliatory.

Reactions to actual or feared job loss range from passive resistance to outright sabotage. The resistance has also been manifested through protests and outright disclosure to management by the organization union officials. Some employees with valuable knowledge quit unexpectedly. According to Awino et al (2014) overlooking human resource issues leads to low morale employees who generally view outsourcing as an underestimation of their skills. Others make the process of knowledge transfer difficult or hinder the setting up of the support structures necessary for implementation of Business Process Outsourcing strategy. The organization must deploy strategies to deal with the resistance of unhappy employees in order to prevent hindrances to successful implementation of business process outsourcing strategy. Even though employees may feel resentful, outsourcing may affect some employees positively by upgrading their role, requiring them to focus on high value-added activities.

Leakage of information to the competitors through outsourced vendor as experienced by EAPCC is in agreement with the study by Duening and Click (2005) as a challenge to the implementation of business process outsourcing. According the respondents, the vendors leak strategies formulated to the competitors who quickly implement them ahead of East African Portland Cement. This has been manifested development of Marketing and distribution strategies which leaks to the competitors through contacted transporters. It is therefore important for EAPCC to ensure that their BPO service providers adhere to the organization information security policies and that all work done adheres to up-to-date security procedures to avoid any leakage of information and maintain confidentiality (Duening et al, 2005).

Respondents stated that cost escalation is a challenge experienced by EAPCC in the implementation of Business process outsourcing strategy. This does not conform to the benefits of Business process outsourcing as discussed by Halvey and Melby (2007) and also against the transaction cost view theory for outsourcing. The transaction-cost view is where the decision to outsource is determined by the relative transaction and production costs associated with the process or service. It can therefore be argued that where cost escalation is realized, the organization should carry out cost benefit analysis in determination of the need to outsource. However on the flip side, it cost could rise as a result of agency cost (Perunovic and Pedersen, 2007). This occurs where the outsourcing vendor controls the activity; while the outsourcing firm "owns" the result and the outsourcing organization has lost control of the activities. These agency costs raise a significant impediment to business outsourcing and are a major reason why firms choose to keep a business process within the organization.

In summary, the challenges faced by the East African Portland Cement Company in implementation of business process outsourcing strategy are selection of the right vendor, this is caused by failure of EAPCC to undertake due diligence to verify the capacity of the service providers. Loss of control is the second challenge, where EAPCC lacks capability to manage the vendor occasioned by lack of able managers. Thirdly, resistance from staff for fear of job loss, fourthly leakage of information to other competitors due to failure to implement information security policies and finally cost escalation resulting from overlooking the hidden costs of outsourcing incurred before and after outsourcing.

#### **4.5 Chapter Summary**

This chapter focused on data analysis, interpretation and presentation of the data collected in the study. The chapter also discussed business process outsourcing strategy at East African Portland Cement Company Ltd and main reasons for the organization adopting BPO as a strategy.

In this chapter, challenges of BPO at East African Portland Cement Company were also discussed into details. The challenges were Selection of the right vendor, Loss of control, Resistance from staff, leakage of information and cost escalation. The chapter also discussed the findings in comparison to relevant theories and empirical studies on Business Process Outsourcing strategy.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presented the summary of key data findings, conclusion drawn from the findings and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the challenges of implementing occupational health and safety strategies at East Africa Portland Cement Company Limited.

#### **5.2 Summary**

The study found that most of the departments in East African Portland Cement Company outsource one or more business processes. The processes outsourced are mining operation, security services, various consultancy services, transportation of raw materials and cement, sales of cement in Uganda, marketing, recruitments for senior position, printing services, cloud based PABX, fumigation and garbage collection. East African Portland Cement company ltd is motivated to outsource for cost reduction and remain competitive. Other reasons for Business process outsourcing were lack of internal expertise and for the organization to concentrate on the core business

The researcher also found that the major challenges experienced in the implementation of business process outsourcing strategy as a result of outsourcing are; selection of the right vendor, loss of control, resistance from staff, leakage of information and long run escalation of cost.

The study also revealed that the Business Process Outsourcing strategy had led to cost reduction thus making East African Portland cement product competitive in the market. BPO also resulted to increased efficiency and effectiveness in core operations where the non-core activities are outsourced.

### **5.3 Conclusion**

From the study findings, the researcher concludes that the business operations that are outsourced by East African Portland Cement company outsources are mining operation, security services, various consultancy services, transportation of raw materials and cement, sales of cement in Uganda, marketing, recruitments for senior position, printing services, cloud based PABX, fumigation and garbage collection. The study also concludes that the factors that drive EAPCC to outsource some of its business processes are cost reduction, lack of internal expertise, quality of services, lack of adequate infrastructure and the need to focus on core business.

The study also revealed that the challenges facing EAPCC in implementation of business process outsourcing strategy are selection of the right vendor, loss of control, resistance from staff, leakage of information to other competitors and escalating cost to the organization in some instances. Even though Business process outsourcing implementation at EAPCC is faced with the above listed challenges, the success was rated good by the respondents.

#### **5.4 Recommendations**

From the discussions and conclusions in this chapter, the study recommends that for the East African Portland Cement Company to succeed in the implementation of business process outsourcing strategy, the organization should engage staff with high competency in areas that are outsourced to ensure that the service provider provides quality, timely and cost effective work.

The study also recommends that the organization should develop business process outsourcing policy that will guide in the implementation of BPO strategy. The policy should provide clear criterion for selection of a vendors to supply the services that East African Portland Cement Company in order to guarantee quality and cost. The policy should define which business processes are to be outsourced or retained by the organization

It is also recommended that for EAPCC to maintain effective control of outsourced activities and reduce agency cost risk, the organization should also be increasingly putting in place monitoring mechanisms and bench marking with other organizations in similar business. EAPCC can also use of interlocking contracts and detailed service level agreements with a liberal exit rights. Where possible, East African Portland Cement Company may engage different vendor to execute similar activity. This kind of arrangement can enhance competition amongst the outsourced vendors thereby resulting to improved quality and efficiency

### **5.5 Limitations of the Study**

In the process of data and information gathering, the researcher encountered a number of challenges. One of the challenges was the tight schedule of the top management staff who was the target respondents to the study. As a result of the interview was not made as elaborate as was initially intended and therefore limited information was given out.

The other limitation was time factor. The duration within which the study was to be conducted was limited hence exhaustive and detailed research on the challenges in the implementation of business process strategy could not be carried out.

### **5.6 Suggestion for Future Research**

This study was done of the challenges facing the implementation of Business Process Outsourcing strategy at East African Portland Cement Company. The study therefore recommends that similar studies should be replicated in manufacturing state corporations in the country to determine the challenges of BPO strategy implementation.

The study also recommends that further research should be done on the relationship between Business Process outsourcing strategy and East African Portland performance. The recommendation is necessitated by the diverse perception on Business Process outsourcing strategy on the company performance.

### **5.7 Implications of the study**

This section discusses the implication of the study of challenges of Business process Outsourcing implementation at East African Portland Cement Company on policy, theory and practice.

### **5.7.1 Implication of the study on Policy**

East African Portland Cement Company Ltd and other organizations practicing business process outsourcing strategy or intending to adopt BPO strategy will use the study to benefit the organization by formulating strategies to counter the challenges of BPO strategy and enhance successful implementation of BPO.

The policy makers should get insight from the study in formulating policies regarding regulatory requirements of the Kenyan outsourcing firms that will promote successful implementation of BPO in the organization.

### **5.7.2 Implication of the study on theory**

In addition to the practical implications for the East African Portland Cement Company Directors and top Management in the policy making, the research findings of this study will also have implications for academics and others involved in theory building.

The review of transaction cost view literature shows that the decision to outsource is determined by the relative transaction and production costs associated with the process or service. Manhnke et al, (2005) stated that the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process. From the study, cost escalation has been a challenge and therefore it is suggested to review the relationship between outsourcing and transaction cost reduction

### **5.7.3 Implication of the study on Practice**

The academicians would use that the study as a basis upon which further studies on Business Process Outsourcing could be researched. The findings contribute to professional extension of existing knowledge in business processing outsourcing by providing literature on challenges of BPO implementation.

The study will also serves as a source of reference for future scholars besides providing areas of further research on Business Process Outsourcing. This due to the fact that the study contributed to the body of knowledge and thereby stimulating further research in the area of Business Process Outsourcing.

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# APPENDICES

## APPENDIX I

### LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 01/06/2015

**TO WHOM IT MAY CONCERN**

The bearer of this letter OBUDHO ERICK NYAMBURI

Registration No. D61/64395/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.

  
  
**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**

**APPENDIX II**  
**REQUEST FOR AUTHORITY TO COLLECT DATA**



**DATE:** July 2, 2015

**TO:** Planning and Development Manager

**FROM:** Erick Nyamburi

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**SUBJECT: AUTHORIZATION TO COLLECT DATA FOR MBA RESEARCH PROJECT**

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I am in the research phase of MBA study at the University of Nairobi and the study is on **The challenges of the implementation of Business process outsourcing strategy at the East African Portland Cement Company in Kenya.**

I am therefore seeking authority from your office to be allowed to collect data from the company.

Kind Regards  
Erick Nyamburi

## APPENDIX III

### AUTHORITY TO COLLECT DATA

 **THE EAST AFRICAN PORTLAND CEMENT COMPANY**  
*Holding Life Together*

Ref: EAPCC/hr.train/research/nm

July 3, 2015

Eric Nyamburi,  
The University  
**NAIROBI**

Dear Sir,

**RE: RESEARCH PROJECT**

We are in receipt of your letter dated **July 3, 2015** on the above subject.

East African Portland Cement Company Limited acknowledges with appreciation your request to collect data on the **Challenges of the implementation of business process outsourcing strategy** from our Company.

Kindly get in touch with the Training Officer for details and other modalities.

Please also ensure that the information collected is kept confidential and provide the company with a report of your research findings after completion.


We look forward to fruitful working relations.

Please sign your acceptance of the research on those terms by signing and returning a copy to the Training Officer immediately.

Yours faithfully,  
**For: E.A. Portland Cement Co. Ltd**

  
**ELIZABETH KIMANI**  
**HR PALNNING & CHANGE MANAGER**

Cc: HODs

Signature  Date 

Directors: Mr. William Lay (Chairman), Mr. Kephah L. Tande (Managing Director), Dr. Wilson Songa (Alt. Mr. Julius K. Kiplangat)  
Mr. Kungu Gatabaki, Mr. Henry Rotich (Alt. J.Kinyanjui), NSSF (Rep by Mr. Richard K. Langat) (Alt. G. Kyengo), Prof. Sarone Ole Sena



## APPENDIX IV

### INTERVIEW GUIDE

#### Part A: Background information

1. Name.....
  - b) Gender: Male    ☐    Female    ☐
  - c) Department.....
2. How many years have you been working in the organization? .....
3. Position held in the organization? .....
4. How long have you served in your current position? .....

#### Section B: Factors that Influence adoption of BPO strategy

5. Does your section outsource certain business processes?
  - b). Which services do you outsource mostly?.....  
.....  
.....
  - c). Why are these services outsourced?.....  
.....
6. How do you rate the success of Business process outsourcing strategy in the organization?  
.....  
.....

#### Section C: Outsourcing Challenges

7. What are the challenges experienced in the implementation of business processes outsourcing strategy?.....  
.....  
.....
  - b). What measures have you put in place to alleviate this challenge?  
.....  
.....  
.....

## **APPENDIX V**

### **LIST OF FIRMS IN THE CEMENT INDUSTRY**

1. East Africa Portland Cement Company Limited
2. Bamburi Cement Company
3. Mombasa Cement Company
4. Athi-River Mining Company
5. National Cement Company
6. Savannah Cement Company

**Source:** Dyer & Blair Report, (2012).