

**FACTORS THAT INFLUENCE OUTSOURCING  
STRATEGY IN KENYA POWER AND LIGHTING  
COMPANY LIMITED**

**BY**

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**DECLARATION**

This research project is my original work and has not been presented for examination in any other University.

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## **DEDICATION**

Dedicated to my loving family and most of all, my wife Monicah, and daughters Julie and Anne for their encouragement and support throughout the duration of the MBA course.

## **ABSTRACT**

Faced with global competition and increased customer awareness, companies have been forced to adopt cutting-edge strategies to survive in the turbulent environment. Managers need to use only those practices that ensure customer needs are addressed and met in time. Supply chain management has been a norm for many firms with outsourcing being a key element in this process. Managers have limited resources which require to be optimized for maximum output. Firms have therefore to continuously consider the advantages and disadvantages of producing goods and services in-house. Outsourcing has attracted huge attention from many firms as it offers a quick solution in cutting costs and most importantly allows the firm to only deal with those activities that are core to the organization. Business support and non-core activities are better handled by firms who are specialized in specific areas.

This case study sought to determine the factors that influence outsourcing strategy in the Kenya Power and Lighting Company limited. Data was collected by use of an interview guide and from documents obtained internally within the firm. The interviewer had a face-to-face interview with the respondents who were managers and functional heads at the firm. Eighteen interviews were carried out before a consistent view could be obtained from the respondents.

From the findings of the study, KPLC outsourced several activities. All departments within the firm outsourced some of their processes. Human Resources and administration, and Distribution departments practiced outsourcing more than the other departments in KPLC. The study revealed that, outsourcing was used in KPLC to cut on costs emanating from human labour, accelerate electricity connection to the huge Kenyan market and to allow the firm to concentrate on the core activities. KPLC usually made the

decision to outsource by considering cost, time duration and the strategic implications of outsourcing. The study revealed that some partnerships with outsourced firms have lead to management consultancy services being extended to employees to participate abroad which is a form of diversification of business. It also revealed that supervising the outsourced firms in KPLC is a big challenge which requires a refined approach.

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## LIST OF ABBREVIATIONS

KPLC	Kenya Power & Lighting Company Limited
KETRACO	Kenya Transmission Company
KENGEN	Kenya Generating Company Limited
ACT	Agency Cost Theory
REA	Rural Electricity Authority
KV	Kilo Volt
NSE	Nairobi Stock Exchange
BAT	British American Tobacco
HR	Human Resources
DEPT	Department
IT&T	Information Technology and Telecommunications
L&T	Labour and Transport
PDC	Private Debt Collector
SAP	Systems Applications Programming
ICS	Integrated Customer Service
DCS	Design and Construction System
EIA	Environmental Impact Assessment
SHE	Safety, Hazards and Environment
ISO	International Organization for Standardization
Mpesa	Mobile Money Transfer: Brand name used by Safaricom limited company
GSM	Global System for Mobile Communications
MD	Managing Director

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Companies contribute to the economic development of a country in various sectors including manufacturing and service industries. The search for higher efficiency levels along with cost control efforts has forced many companies to specialize in a number of key areas, focusing on their distinctive competences (Gilley et al., 2004). In a globalized and highly competitive market, organizations strive to be innovative and agile enough to meet customers' demands. Competitiveness, based on organizational capabilities and production strategies, may lead to improvement in quality, efficiency and flexibility. In the pursuit of 'mass customization', flexibility and scale economies are followed simultaneously. The search for a system's flexibility, responsiveness and reliability on the one hand, and low costs on the other, has led to the reconfiguration of the design and production activities and thus advocated the changes in the overall supply chain management (Suri, 1998). The reality of competing in a global supply chain environment has caused many organizations to focus on strategic renewal and creative solutions to manage and mitigate the risks of operating in today's dynamic marketplace.

Outsourcing refers to the situation where a client organization contracts with another external supply organization for the provision of peripheral business functions that could equally be provided by a person, unit or department within the organization that requires the function (Gonzales et al., 2006). Strategic outsourcing involves recognition of certain significant risks to the organization if carried out inadequately and without the above-mentioned assessment of resources. One important risk is the possible loss of differentiation in the service, which, when outsourced to a supplier from whom another

customer also acquires it, becomes easily imitable, and the possibility of gaining any competitive advantage from it is lost. Therefore, the organization must develop specific, idiosyncratic relationships that enable it to generate relational capabilities and rents. Along these lines, Rothery and Robertson (1996) consider that companies outsourcing key functions or functions central to their business must preserve the means to establish policy and direction as well as monitor delivery of the service and control the supplier. Depending on the extent to which these services can be controlled, companies can opt to outsource more strategic services as long as there are more capable suppliers.

Kremic et al. (2006) stated that the factors to be considered when organizations contemplate on outsourcing decisions include the relative costs of performing the function, how core the function is to the organization, the long-term strategy, and the environmental factors. The study presented the possible benefits, risks, and strategic issues of outsourcing, and highlighted that the literature lacks guidelines on sustainable decisions and it needs further work. An organization's outsourcing strategy needs to be consistent with competitive conditions and the development of competitive advantage (Quinn and Hilmer, 1994). The short-term implications of the outsourcing strategy can be assessed by use of Porter's (1980) model of industry analysis. The analysis shows the effectiveness of the outsourcing strategy in meeting the structure of the industry, but in a number of ways it is a static analysis that does not explore the implications of the strategy for resource leverage and hence development, the effects of (seasonal) demand variation upon the company's use of manufacturing and shop capacity, nor the ability of the strategy to respond to the longer term consumer and competitive changes that come to change the structure of an industry.

According to Blumberg (1998), outsourcing is an organization's chance to improve the available process in many aspects. However, outsourcing is not easy, and it needs to be well planned and organized. Therefore, it is very important to assess and identify the factors that are involved before an organization decides to outsource some functions. In some cases, outsourcing could cost the organization more than the in-house resources; therefore a detailed analysis should be performed (DiRomualdo and Gurbaxani, 1998).

### **1.1.1 Concept of Outsourcing**

The primary reason given by managers for globally outsourcing is the existence of a surplus of inexpensive, college-educated, and multi-lingual labor in many relatively low-wage countries, thus allowing management significant cost savings. Lei and Hitt (1995) define outsourcing as reliance on external sources for manufacturing components and other value-adding activities. On his part, Perry (1997) focused on employment, defining outsourcing as another firm's employees carrying out tasks previously performed by one's own employees. According to Sharpe (1997), outsourcing was described as a process of turning over to a supplier those activities outside the organization's chosen core competencies.

Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of their in-house operations report significant savings on operational and capital costs (Uttley, 1993). There are many other motivations for outsourcing, beyond short-term cost savings. According to Teece (1996), outsourcing can enable firms to focus on "core" activities. According to Greaver (1999), suppliers may be significantly more advanced and outsourcing to them allows organizations to exploit their more advanced technologies and improves flexibility to meet changing business conditions, demand for products, services and technologies.

Some organizations do not achieve the expected benefits from outsourcing. Melvor (2000) noted that only five per cent of companies surveyed achieved significant benefits from outsourcing. Lonsdale (1999) highlights reasons for this failure as: focusing on achieving short-term benefits, lack of formal outsource decision-making processes, including medium and long-term cost-benefit analyses, and increased complexity in the total supply network.

### **1.1.2 Kenya Power and Lighting Company**

The Kenya Power and Lighting Company Ltd (KPLC) is a Kenya-based company engaged in the transmission, distribution and retail of electricity. It is a government parastatal with the Kenya government owning 51% shareholding. The company was formed in 1922 and has undergone several transformations over the period to the current position in which the company is solely engaged in the transmission and distribution of electricity. In 1997 the generation function was separated from the distribution function. KPLC retained its name while the new company was called, Kenya generating company (KenGen) which was initially fully owned by the government. It generates electricity and sells it to KPLC. In 2005, the rural electrification function was also hived from KPLC to form the Rural electrification authority (REA) which is charged with the responsibility of construction of rural projects using government funds and donor funds while KPLC still runs the distribution and retail function. In 2008, the Kenya Transmission company (KETRACO) was hived out of KPLC. This company is charged with the responsible of constructing new transmission lines for high tension cables from 132 KV (kilo volt) and above.

KPLC provides electrical energy that is used for various economic activities. Electricity consumption has traditionally been used as a reliable indicator of the economic activity and the standards of living in a given location, making the rise of power consumption in a country significant. Higher intake of energy in any area is often an indicator of increased number of electrical equipment, including industrial machinery, pointing to expanding output whose impact is often job creation. As an illustration, the amount of electricity consumed in Nairobi, as measured by the Kenya Power and lighting company (KPLC) revenues, jumped from 53.9 per cent in 2006 or 18.3 billion to 56.4 per cent (41.3 billion) in 2010 (Juma, 2011). This demonstrates the rapid growth of the energy sector.

The Company's services are targeted at individual and corporate customers. KPLC manages an electrical network of more than 40,000 kilometers of power lines. The Company operates in four regions, including Nairobi, Mount Kenya, Coast and West Kenya. KPLC has a business turnover of about 70 billion shillings and profits in the range of 2 to 3 billion shillings annually (KPLC annual reports, 2010). Due to these devolvement and changing customer needs, it has been necessary for KPLC to continuously adapt new ways of handling its customers. It has started this by a Rebranding and culture change exercise. This has necessitated development of a 5 year strategic plan which includes outsourcing as a strategy in various business level activities (KPLC, Unpublished Strategy document, 2009). The national grid is operated as an integral network linked by a 220 kV and 132 kV transmission network. A number of strategies and restructuring steps have been undertaken by the organization in meeting the changing business environment. KPLC carried out a debt restructuring entailing conversion of an accumulated debt to preference shares of 15.9 billion shillings. Other strategies include outsourcing of construction for new customer connections,



implementation of system reinforcement and substation projects aimed at achieving substantial technical loss reduction benefits. Examples include; Ongata Rongai, Kiambu and Baba Dogo substations.

## **1.2 Research Problem**

Outsourcing is an organization's chance to improve the available process in many aspects. As part of a company's strategic development the outsourcing decision needs to consider a range of contextual factors, including conditions in the final product market, capability, cost, technology and supply market conditions. However, outsourcing is not easy, and it needs to be well planned and organized (Melvor et al. 1997). The most strategic factor influencing the outsourcing decision is to allow the organization to focus on its core activities (Sislian and Satir, 2000). This view assumes that there is no strategic competitive advantage to retaining control of some of the business functions. Therefore, it is very important to assess and identify the factors that are involved before an organization decides to outsource some functions. In some cases, outsourcing could cost the organization more than the in-house resources; therefore a detailed analysis should be performed (DiRomualdo and Gurbaxani, 1998). According to Campell (1995) a planned strategy for outsourcing has the potential to deliver a competitive advantage through allowing the organization to focus on core activities. This planned strategy involves assessing the readiness of the organization to introduce outsourcing, as well as identifying the activities which offer the best potential to the organization.

The Kenya Power and Lighting Company plays a critical role in the country through the transmission, distribution and retail of electricity to consumers. With the country endeavoring to become a middle income country by the year 2030 through Vision 2030

program, generation and distribution of reliable and sufficient electricity has been identified as one of the key stimulus to the achievement of the goal. Frequent power outage, power rationing and lack of adequate electricity spread in the country has been found to greatly hamper entrepreneurship growth and leads to huge losses for the established ones. As a result, the Kenya Power and Lighting Company need to streamline its operations in such a manner that it will be able to play its critical role of national development and the realization of Vision 2030. One of the steps that the company can take is to outsource its non-core services and instead leave itself with delivering its core mandate, i.e. transmission, distribution and retailing of electricity. However, the outsourcing process needs to be made in a planned manner. Hence the first step to consider in outsourcing is to establish the reasons why the company needs to outsource the services. These factors that influence the outsourcing process need to be clear and explicit.

Recent studies done in the area of outsourcing include: Kirui (2001) who studied on outsourcing of logistics activities in a case study of British American Tobacco (BAT) Kenya and found out that third party logistics providers are ahead of manufacturing companies that operate logistics departments on quality implementation and improvement issues in logistics services. Chanzu (2002) concentrated on a survey of business outsourcing practices among private manufacturing companies in Nairobi and found out that Outsourcing gives the organizations the opportunity to have better services and the possibility to achieve technological improvements and, although cost savings in staff and technology are generally seen as very important, they do not emerge as priority reasons for outsourcing in the present study. Kamau (2006) researched on a survey of outsourcing of accounting services in firms listed on the Nairobi Stock Exchange (NSE) and found out that seventy three percent of the firms had practiced outsourcing of

accounting services between 2001 and 2005. However the extent and the categories of tasks outsourced varied across the firms covered by the study.

As observed above, the studies conducted on outsourcing of services by various organizations have not considered the reasons that drove these organizations to embrace outsourcing. It is going through the various reasons that will necessitate an organization to undertake such an exercise. This research will therefore seek to bridge this gap by identifying the factors that influence the decision of a firm to outsource some of the services. This problem statement therefore leads to the question of what factors influence the outsourcing of services at the Kenya Power and Lighting Company.

### **1.3 Research Objectives**

The objective of the study was to determine the factors that influence outsourcing strategy at the Kenya Power and Lighting Company limited.

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

The study will be beneficial to various stakeholders. This study will be an instant source of information to KPLC as it will be able to evaluate the necessary factors to consider before it outsources its non-core activities. It will assist the company to evaluate whether it is still beneficial for the company to continue outsourcing some of the activities for example in its transport functions or it should just do it on its own.

The policy makers will also obtain knowledge of the service industry dynamics and the appropriate strategies and therefore they can obtain guidance from this study in designing appropriate policies that will regulate the industry. To the academicians, the study will contribute to the existing literature in the field of strategic management in general and outsourcing in particular. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter will consider theoretical as well as empirical literature and conceptual framework. Theories put forward by various writers are explored. The chapter concludes by looking at various factors that influence outsourcing strategy.

### **2.2 Theoretical Framework**

The outsourcing process is a complex structure consisting of numerous activities and sub activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process (Bettis et al., 1992). It is common knowledge that each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. From its occurrence, the outsourcing has been approached by different theories. This creates confusion among the researchers of the outsourcing phenomenon.

Outsourcing is often viewed as involving the contracting out of a business function, commonly one previously performed in-house, to an external provider. In this sense, two organizations may enter into a contractual agreement involving an exchange of services and payments. In addition, several related terms have emerged to grasp various aspects of the complex relationship between economic organizations or networks, such as near-shoring, multi-sourcing and strategic outsourcing. Various authors identified significant number of theories that could explain the outsourcing phenomenon (Gottschalk and Solli-Saether, 2005).

### **2.2.1 Transaction cost theory**

According to this theory, transaction costs are the reason behind different forms of organizing economic activity. The two ends of a continuum regarding how to administrate business are markets and hierarchies. Transactions and transaction costs differ between different governance structures in business relationships. Basically, these so-called transaction costs can be assigned to four different classes: search costs, contracting costs, monitoring costs and enforcement costs (McIvor, 2005).

Transaction costs represent "friction in the market" or "cost of using the price mechanism". Aubert *et al.* (2004) basic rule states that when the marginal costs of using markets (transaction costs) are higher than the costs of running a firm (management costs), the transaction should be organized within the firm and vice versa. The reasons behind transaction costs are transaction difficulties. These are bounded rationality, opportunism, uncertainty and complexity, small numbers, information impactedness and asset specificity. Based on transaction cost theory, when a firm has already integrated its operational functions, the decision to outsource such functions to the market should be made if it is necessary to create or protect firm value.

### **2.2.2 Agency cost theory (ACT)**

Agency cost theory expands on one aspect of transaction costs theory, as it deals with the different perspectives of risk that client and supplier have, and differentiates between outcome-based contracts, and behaviour-based contracts (Barney and Hesterly, 1996). If the client distrusts the supplier, then the extent of monitoring required will be greater for the client than it would be if the client could wholly trust the supplier to deliver. The client has two main choices: a contract which stipulates payment by results (an outcome-

based contract), or a contract that states that the supplier should do certain things at stipulated times, or spend a certain amount of time on certain functions.

If one cannot trust a supplier to deliver a product some months down the line, then it might pay to ensure that it looks as if they are doing something. On the supplier side, a behaviour-based contract at least allows them to claim that they did spend \* hours on this task, even if the outcome could not be achieved as originally intended. Agency cost theory helps to distinguish the most productive and fairest method of minimizing risks for both client and supplier (Engardio *et al.*, 2003).

### **2.2.3 Neoclassical Economic Theory**

Classical economics, developed in the 18th and 19th centuries, included a value theory and distribution theory. The value of a product was thought to depend on the costs involved in producing that product. The explanation of costs in Classical economics was simultaneously an explanation of distribution. A landlord received rent, workers received wages, and a capitalist tenant farmer received profits on their investment. According to Weintraub (2002), neoclassical economics rests on three assumptions, although certain branches of neoclassical theory may have different approaches. The first one is that people have rational preferences among outcomes that can be identified and associated with a value. The second one is that, individuals maximize utility and firms maximize profits and the final one is that people act independently on the basis of full and relevant information.

The key characteristics of the theory according to (Hodgson, 1994) are the assumption of rational, maximizing behaviour by agents with given preference function; focus on attained, or movement towards, equilibrium states and absence of chronic information

problem. However, the theory has received a significant critique for not being able to explain contemporary business processes. Especially, the concepts of rationality and absence of chronic information problem have been criticized. However Gottschalk and Solli-Saether (2005) showed that the neoclassical economic theory explains critical success factors of outsourcing that are being evaluated in the reconsideration phase.

#### **2.2.4 Resource-based theory**

According to resource-based theory, organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner (Krim, 2003). This theory emphasizes that resources internal to the firm are the principal driver of a firm's profitability and strategic advantage (Barney, 1991). It rejects traditional economic assumptions that resources are homogeneous and perfectly mobile. Instead, it argues that resources are heterogeneously distributed across firms and are imperfectly transferred between firms (Barney, 1991). Barney (1991) categorized resources into three groups: physical resources such as plant, human resources and organizational resources. Resources enable a firm to conceive of and implement strategies to improve its efficiency and effectiveness (Daft, 1983).

Organizations can obtain above-normal returns if they can use their existing resources to sustain competitive advantage by exploiting opportunities in the market or neutralizing threats from competitors' strategic resources. Therefore, organizations retain strategic resources internally that enable them to sustain competitive advantage (Mahoney and Pandian, 1992). Strategic resources enable organizations to sustain competitive advantage, if the resources are valuable, rare, imperfectly imitable and non-substitutable. Resources might be imperfectly imitable if they involve unique history, causal ambiguity,

or social complexity (Barney, 1991). Similarly, resources are non-substitutable if another organization is not able to implement the same strategies by using alternative resources.

### **2.3 Empirical Review**

Before the 1970s, outsourcing was adopted only to reduce costs (McIvor et al., 1997). Lankford and Parsa (1999) stated that outsourcing is usually supported by many factors in all organization levels. The decision to outsource should take account of many issues which include scale of economy, outsourcer expertise, strategy, the need for cost savings, and accountability with greater control of operating costs, moving from fixed into variable costs, and quality factors. Several studies have been completed on various aspects of outsourcing. Campbell (1995) indicated that a planned strategy for outsourcing has the potential to deliver a competitive advantage through allowing the organization to focus on core activities. This planned strategy involves assessing the readiness of the organization to introduce outsourcing, as well as identifying the activities which offer the best potential to the organization.

Lonsdale (1999) proposed a risk-minimizing model to outsourcing. Inherent issues in this approach include the quality of cost accounting systems, the loss of skills, and falls in employee morale. The model recommends comprehending the sources of the organization's competitive advantage and realizing the potential for dependency. A survey of more than 900 firms conducted by Ketler and Willems (1999) to determine the factors affecting the outsourcing decision resulted in identifying three crucial factors. These factors are cost savings associated with outsourcing, access to increased knowledge and expertise associated with specialty contractors and availability and quality of vendors.



Arditi and Nawakorawit (1999) conducted a survey of 230 property management organizations in the US to examine their maintenance practices. The reported results focused on the policies concerning outsourcing and in-house maintenance services. The findings indicate that corrective maintenance, service maintenance, and deferred maintenance are mostly performed through selective outsourcing. Further, routine maintenance and preventive maintenance are mostly performed by in-house staff. Moreover, extraordinary maintenance is mostly performed by contractors. On his part Hui and Tsang (2004) developed a framework for the selection of appropriate sourcing strategy. The framework necessitated the identification of four strategies to perform maintenance service in facilities management. These strategies are in-sourcing, out-tasking, outsourcing for cost saving, and outsourcing for capability. The framework provided guidelines for implementing the selected sourcing option.

Kremic et al. (2006) stated that the factors to be considered when organizations contemplate on outsourcing decisions include the relative costs of performing the function, how core is the function to the organization, the long-term strategy, and the environmental factors. The study presented the possible benefits, risks, and strategic issues of outsourcing, and highlighted that the literature lacks guidelines on sustainable decisions and it needs further work.

Moreover, Prahalad and Hamel (1990) state that better company performance comes from focusing on the resources that provide the core competencies. Those authors suggest that short-term success comes from prices and product attributes, but long-term competitiveness is based on the core competencies, which is obtained from collective learning by the organization. Addressing the strategic outsourcing decision based on resources and capabilities implies an in-depth understanding of the core competencies on

which future competitive advantage can be built (Bettis et al., 1992). The core competencies must be directly linked to the desires and needs of the customer. Quinn (1999) points out that an organization must not outsource its core competencies, and systems must be created to protect them. In that author's opinion, core competence is not a product or thing that the company does relatively well, but activities that the firm performs better than others. To be specific, it is a set of skills and systems in which the firm's standards are the highest (i.e., best-in-the-world), thus providing the customer with the highest value. Depending on the extent to which these services can be controlled, companies can opt to outsource more strategic services as long as there are more capable suppliers.

#### **2.4 Factors affecting Outsourcing decision**

Outsourcing is an organization's chance to improve the available process in many aspects. However, outsourcing is not easy, and it needs to be well planned and organized (Blumberg, 1998). Therefore, it is very important to assess and identify the factors that are involved before an organization decides to outsource some functions. In some cases, outsourcing could cost the organization more than the in-house resources; therefore a detailed analysis should be performed (DiRomualdo and Gurbaxami, 1998).

Organizations that outsource are seeking to realize benefits or address issues that include cost savings for lowering of the overall cost of the service to the business. It will also assist to focus on core business where resources (for example investment, people, and infrastructure) are focused on developing the core business. Issues of cost restructuring and operating leverage will also be addressed. These are measures that compare fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable. The

business will also address quality improvement with a new service level agreement and access to intellectual property, wider experience and knowledge. Other benefits will be a legally binding contract, access to operational best practice that would be too difficult or time consuming to develop in-house, access to talent, capacity management, catalyst for change, reduced time to market, standardizing of business processes, risk management, venture capital, tax benefit, scalability, and creation of leisure time. According to Assaf et al., (2008), the factors that influence the decision on outsourcing for firms can be classified under six main categories which include strategic, economic, management, technological, function characteristics, and quality factors.

#### **2.4.1 Strategic Factors**

These factors enable an organization to acquire many benefits regarding its long-term objectives, such as: focus on core activities, accelerate re-engineering, improve flexibility to the changing market dynamics, risk-sharing with the contractors, lack of internal resources, and freeing resources for core activities. By focusing on core activities, an organization can support its position for a competitive advantage. The decision on exactly what function is core should have bearing on whether or not to outsource them. Quinn (1999) suggests that those activities, usually intellectually-based, that the company performs better than any other enterprise are core. According to Sislian and Satir (2000) the most strategic factor influencing the outsourcing decision is to allow the organization to focus on its core activities.

Outsourcing providers bring world-class resources to meet the needs of their users, where these skills do not exist in-house. In principle, outsourcing can provide access to "best in the world" quality and competitive advantage. However, in the absence of fully developed monitoring, the quality may on occasion be illusory (Quinn, 1999). He further

observed that when organizations outsource non-core services, internal resources can be redirected toward services that have a greater return and sustain the organization's main purposes. According to Corbett (1998), outsourcing can be considered as one way to use the new process for improvements in the performance. This point was further pointed out by Lau and Zhang (2006) outsourcing enables an organization to understand the expected benefits of re-engineering by engaging an outside contractor who is already re-engineered to world-class standard.

#### **2.4.2 Economic Factors**

All organizations need to achieve the lowest cost consistent with their competitive strategy. An organization can save enough by outsourcing to perform a service for less than a competitor. Economic factors influencing the decision on outsourcing include the reduction of costs of development and maintenance, changing the fixed costs into variable costs, improves the cash flow, improve the return on assets, and cash infusion. The key driver for many outsourcing decisions is the reduction in the cost of labor, materials, and parts (Lindskog, 2005). The function is outsourced when the in-house costs are higher than the anticipated costs for outsourcing the function. Therefore, the higher the internal cost to perform the function relative to the anticipated cost of outsourcing, the greater the probability of outsourcing (Kremic et al., 2006).

Organizations may be particularly impacted by a lack of resources. In such cases, the best alternative may be to acquire the needed resources from a contractor (Kremic et al., 2006). Access to the people with specialized skills may be an issue that affects the outsourcing decision. In general, a function is more likely to be outsourced if there is a lack of internal resources to perform it. Resources available from contractors can help in performing functions and controlling all aspects of these functions (Green, 2000).

Flexibility, which is a strategic factor, includes operational flexibility, resource flexibility, and demand flexibility (Kremic et al., 2006). The potential for improved flexibility is measured by the organization's ability to change the service range in response to market conditions (Jennings, 2002). In today's rapidly changing world, an organization has to respond quickly to changing customer demands. Outsourcing helps the organizations to be flexible by providing reliable workers to reduce the time needed to complete works (Djavanshir, 2005).

### **2.4.3 Management Factors**

Assaf et al., (2008) pointed out that there are many management factors influencing the decision on outsourcing, such as increased speed in performance, a function difficult to manage, savings in management time, reducing the management load, management that lacks the skill and ability to manage property assets in-house, etc. Reducing the time needed to complete a job is an important objective for all organizations. Services may be performed by an outside contractor faster than in-house, because they have all the necessary tools and means. The internal management of an organization can focus on their core activities by giving the repetitive non-core activities to outside contractors (Djavanshir, 2005). The lack of in-house staff can increase response times and can render the services at greater risk at times of high demand such as when faced by crisis events and for this reason, contractors need to be very carefully crafted to ensure response in all situations and at agreed prices.

Skills of contractor staff and high-level management have the most impact on the decision to outsourcing. Greaver (1999) stated that a lack of specialized and skilled staff to manage the activities often forces organizations to seek another solution. It is assumed

that contractors can manage and deliver that service perfectly because they have sufficient staff (Collins and Millen, 1995). This benefit can however be illusory unless strict risk management practices are included within the contract to ensure that the contracted staff are available to work exclusively on the contract and are not spread too thinly across multiple contracts (Djavanshir, 2005).

Some services such as corrective maintenance need rapid responses to repair failures. Therefore, the speed of implementation is the important factor. Outsourcing enables an organization to put pressure on a contractor to respond to changes because the contractor should have the resources to perform a service in the agreed time (Greaver, 1999). In addition, if a service is complex or integrated, or if there is no qualified management staff, the organization may get appropriate equipment from service provider (Kremic et al., 2006).

#### **2.4.4 Technological Factors**

These factors include the acquisition of new skills and technology, the need for specialized expertise, flexibility in technology, increased access to diverse technologies, innovative ideas, technical knowledge, and technology environment changes. The growth and change in all aspects of technology necessitates flexibility through constantly monitoring and developing the growth rate to remain competitive. If an organization cannot respond to a technological change, it should outsource the relevant functions (Campbell, 1995).

According to Greaver (1999), if an outside contractor really wants to gain the confidence of an organization, the contractor should use his/her knowledge and technical experience to introduce innovative ideas in design and operation that improve the old process. For

developing and sustaining competitive advantage, organizations require access to appropriate technologies for improving their services (Jennings, 2002). In addition, the use of technology for competitive advantage requires a decision on whether the outsourced services would achieve this advantage (Greaver, 1999).

Uncertainty in technological change and in expectations may be hard to define. If the technological environment is highly uncertain, a service may be performed more easily by an external contractor (Kremic et al., 2006). Blumberg (1998) argued that technology is either very stable with limited applications or very dynamic, changing quicker than the rate of adaptation. They can focus on identifying areas susceptible to improvement and on the knowledge needed to act successfully (Alexander, 1996). They are however susceptible to a short-term focus commensurate with the term of the contract for services. Therefore, when some services are outsourced, an organization should gain new skills or new technical knowledge from the outside supplier (McDonagh and Hayward, 2000).

#### **2.4.5 Quality Factors**

Service quality includes quality planning, quality control, quality assurances, and quality improvement. If the organization's service quality is held in high regard, outsourcing the service should be seen as a potential improvement (Anderson, 1986). The quality factors influencing the decision to outsource services are to reach higher service level, improve service quality, meet special requirements, and achieve competitive advantage.

Service quality appears to be an important factor regarding the scope of service. The quality of maintenance work is required to bring facilities and equipment to a condition that meets acceptable facilities maintenance standards. When some services are outsourced, the quality of services should be measured against the standards

(Hendrickson, 1998). In most organizations, the contracts should include a service- level- agreement between the two firms. This document spells out the quality levels to be achieved by the outsourced firm among many other requirements.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The research design was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon (Kotter, 2002). The purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study. The study was used to identify the factors that influence outsourcing in Kenya Power and Lighting Company Ltd. A case study design was deemed the best design to fulfill the objectives of the study as the results were expected to provide an insight in understanding how the organization evaluated and then eventually decided on outsourcing services.

The study included corporate, business and operational level outsourcing strategy. The study provided an in-depth appreciation of the relationship between the factors used to determine need for outsourcing and the continued use of the strategy. This was within the framework of strategy formulation and development. It was also viewed as a way of developing a better supply chain management.

### **3.2 Data Collection**

The study made use of primary data collected through a face-to-face interview with the researcher (appendix 2). An interview guide was used to collect data on the factors that influence the outsourcing strategy at KPLC. Mugenda and Mugenda (2003, p. 86) define an interview guide as "a set of questions that the interviewer asks when interviewing". Respondents who were interviewed were those involved with formulation and implementation of organization's strategy in outsourcing. This made it possible to obtain data required to meet specific objectives of the study (Yabs, 2010).

The interviewees were top managers and functional heads in charge of finance, customer service, information technology, human resources, distribution, and communication departments (appendix 1). They were key informants for this research. The departments in which the respondents worked in were the key departments in which outsourcing of services have been made or they are immensely involved in outsourcing decision process. Secondary data was collected from existing company documents. The results provided an insight in understanding how the company made decisions on outsourcing services.

### **3.3 Data Analysis**

The data obtained from the interview guide was analyzed using qualitative analysis. Qualitative data analysis makes general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Kotter, 2002). It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that will be used in the analysis will be broadly classified into two: Factors influencing outsourcing decision at the KPLC and challenges faced in making the outsourcing decision in the organization.

Content analysis will also consider the qualitative nature of the data collected through in-depth interview (Nachmias and Nachmias, 1996). Data analysis will lead to further data collection as necessary and will call for repeated interviews with respondents to solidify certain major findings to guide the research into firm opinions.

## **CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The objective of the study was to determine the factors that influence outsourcing strategy in KPLC. This chapter contains summaries of data findings and their interpretation as applied in KPLC. The chapter is divided into three sections. The first section analyzed the demographic information of the respondents. The second section analyzed the application of the outsourcing strategy in the firm while the third section analyzed the factors that influence outsourcing in KPLC. Eighteen interviews were conducted with face-to-face discussions between the interviewer and the respondent. Respondents were given an opportunity to answer open-ended questions on their experiences in outsourcing of various activities in KPLC.

### **4.2 Demographic Information of respondents**

This section sought to get opinions on demographic information of the respondents. Their work experience and designations. Most of the respondents were in the senior management positions and were involved in the strategy development processes. Simple statistics were used to analyze the observed data.

#### **4.2.1 Profile of the respondents & departments.**

The respondents chosen were managers and functional heads from various departments and had differing professional backgrounds. Their experience in outsourcing in various departments ranged from one to above 10 years. There were male and female respondents within KPLC.

Table 1: *Duration of experience in outsourcing*

<b>Period</b>	<b>Frequency</b>	<b>Percent</b>
Below 5 years	2	11.1%
5-10 years	3	16.7%
10-15 years	11	61.1%
Above 15 years	2	11.1%

*Note.* Source of data is from study findings.

Table 1 shows that 11.1% of the respondents had experience of less than 5 years, 16.7 % for between 5 to 10 years, 61.1% % for 10 to 15 years and 11.1 % for more than 15 years. This implies that majority of the respondents were knowledgeable about what was done in the organization including outsourcing. The graphical representation of the data is shown in figure 1.

### **Outsourcing Experience of Respondents**

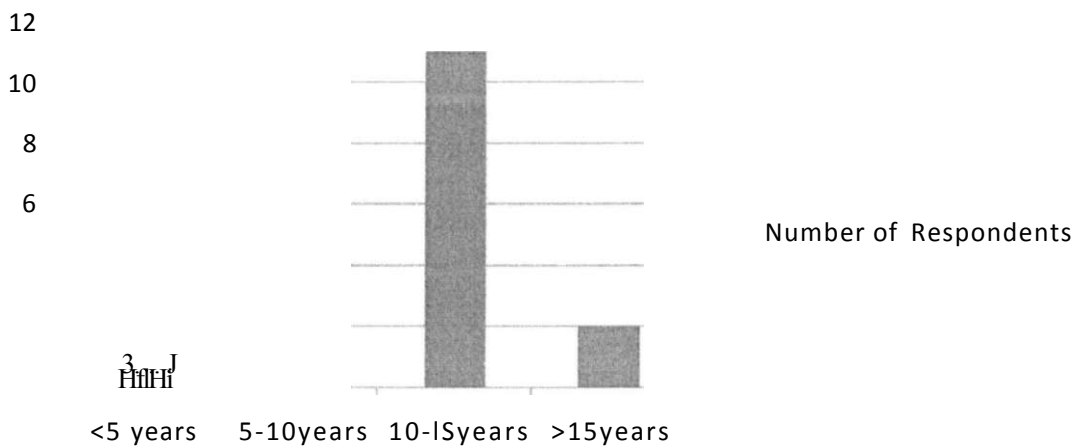


Figure 1. Respondents' experience. Source of data is study findings.

#### 4.2.2 Respondents Distribution across departments in KPLC

Table 2: Respondents Distribution across departments in KPLC

	Frequency	Percent
Distribution	2	11.1%
Customer Service	3	16.7%
Information Technology	3	16.7%
Managing Director	4	22.2%
HR and Administration	1	5.6%
Energy Transmission	1	5.6%
Finance	1	5.6%
Stores, Transport and Supplies	2	11.1%
Planning and Performance Monitoring	1	5.6%

/

*Note.* Source of data is from study findings.

Table 2 shows that there are nine main departments within KPLC. 11.1 % of the respondents were from distribution function, 16.7 % each from Customer service and Information Technology, 22.2% from Managing Director, 5.6% each from HR, Energy Transmission and Finance, 11.1% from Stores, and 5.6% from Planning and performance monitoring. This shows that outsourcing is spread across all departments.

#### 4.3 Outsourcing Strategy

In this section, the respondents were asked questions related to how the firm used outsourcing strategy in its operations. Respondents were given an opportunity to give answers to open-ended questions. The reasons given are discussed in this section.

Respondents indicated whether they were aware of the strategy, which functions were outsourced, for how long, whether the process was transparent, which services could be outsourced further and their level of satisfaction. The respondents were asked to indicate whether there were effective monitoring systems employed by KPLC to check the work of the outsourced firms and also the reasons for outsourcing.

Content analysis was used to check for consistent views from respondents. The same question was asked severally until consistent similar views were obtained from the respondents.

#### 4.3.1 Outsourced activities across departments

Table 3: *Outsourced activities across departments in KPLC*

<b>Department</b>	<b>Activities outsourced</b>	<b>Frequency</b>	<b>Percent</b>
Distribution (Design & construction, Operations & Maintenance)	Design, Way leaves, Survey, Hole Digging, Road Cutting, Labour and Transport Services (L&T), Turnkey Projects, Cable television poles.	8	18.6%
Customer Service	Prepayment meter installation, Debt Collection (Private debt collectors - PDC), customer satisfaction survey.	3	7.0%
Information Technology	Repair of Faulty electronic equipment & Test gear, Maintenance of major software applications and equipment (Servers: SAP, ICS, DCS systems), Data lines leased services, IT Training.	4	9.3%
Managing Director's Department (Company Secretary, Property, Audit, Security, SHE),	Environmental Impact Assessment (EIA) services, Security services (Access control), legal representation, Public media messages, Branding, Customer information (brochures) printing, Insurance of Human resources, Plant and	9	20.9%

	equipment, Land and building Leases from third parties		
HR and Administration	Training, Recruitment Agents, Medical service providers, Relocation, Cleaning Services, Mail Courier Services, Building Renovations and Maintenance, Civil work (projects), Office equipment maintenance.	9	20.9%
Finance	Systems Audit, Cash Courier Services, Cash Collection ("Easy pay" through commercial Banks, Posta, Mpesa, Airtel money and Super Markets).	3	7.0%
Planning and Performance monitoring	ISO audits, Major systems simulations and studies, Performance monitoring systems.	3	7.0%
Transport, Supplies and stores	Transport of Poles and other Inter-stores' transfer of Material, Fleet management systems, Repair of vehicles and motor cycles.	3	7.0%
Transmission	Turnkey projects	1	2.3%

*Note.* Source of data is from study findings.

## No. Of Outsourced Services across Departments in KPLC

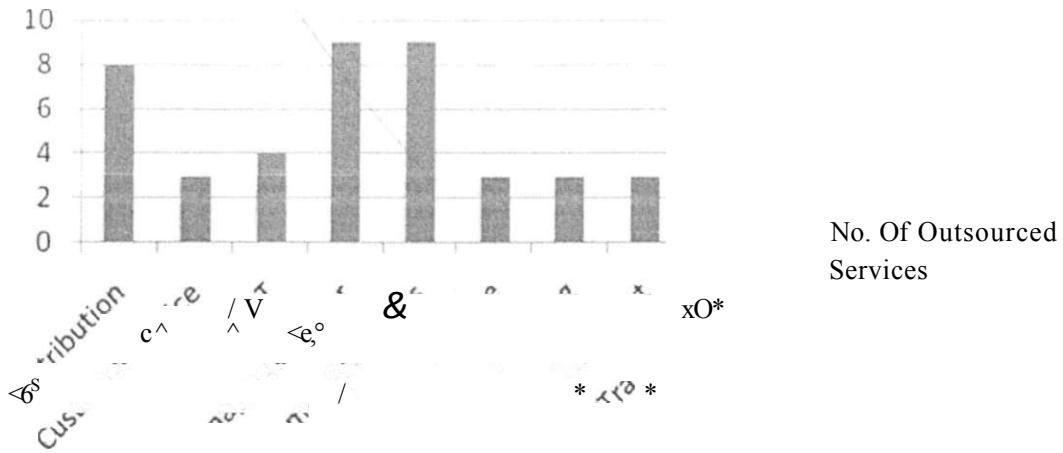


Figure 2. Number of outsourced services across KPLC departments. Source of data is from study findings.

Table 3 shows that Human Resources and Managing Director's functions have 21 % of the outsourced services. These two departments share the highest rating in the firm. Transmission has the lowest at 2.3 %. The findings indicate that all departments outsource some of their processes. Human resources and Administration, Distribution, and Managing Director have the highest preference in outsourcing. Transmission is a core department in KPLC and the analysis shows that it does not outsource many of its services. This is also reflected in Customer service which is a core department in KPLC. It also does not outsource many of its services. Figure 3 displays the data in a bar-chart to show the same information as discussed in this section.

### 4.3.2 Human Resources and administration outsourcing

In HR and Administration department, outsourcing was in several areas. The most outsourced service or activity was in cleaning services followed by the administration of medical scheme, and training which were spread throughout all the KPLC offices in the



country. The cleaning firms are chosen from various companies so as to spread the risk of non-performance on a single entity.

A lot of funds have been allocated to training in the culture change and rebranding exercise currently being undertaken by KPLC. There were suggestions to further outsource cleaning, mail room and delivery services, catering services, printing and typing services, photocopying services, secretarial services, reception and telephone services, inventory data management functions and records management.

#### **4.3.3 Distribution outsourcing**

Distribution in KPLC involves the functions of design of power lines, construction, and operation and maintenance of the power network. It is a core activity in KPLC. The most outsourced service or activity was in construction where the firm outsourced labour and transport (L&T). In this process, KPLC provided all the required materials to the outsourced firm except labour and transport. The second most outsourced was the design and survey of the power line. An outsourced design engineer makes the designs of the blue prints to be used during construction. An outsourced way-leaves' contractor seeks permission from owners of the land through which the power line will pass while the outsourced surveyor prepares the route. The surveyor identifies the actual geographical location and establishes pegs along the intended route. About two thousand outsourced firms have been hired for these activities.

#### **4.3.4 Finance outsourcing**

The most outsourced activity in finance was cash collection for services rendered by KPLC. This is in form of bill payments and pre-paid cash collection. This is done through a process called "easy pay" using commercial banks, Posta, and mobile GSM networks which include Mpesa, Airtel money and Yucash. The other activity outsourced in finance

department is auditing. There were suggestions to further outsource tax compliance certification and management, payroll management, cheque writing, financial reporting, billing and data entry.

#### **4.3.5 Information Technology Outsourcing**

In Information Technology, the most outsourced activity was maintenance & repair of software and hardware. There were suggestions to further outsource web-site management, applications development, end-user support, leasing of desktop systems, data entry for simple processing and computer graphic & design.

#### **4.3.6 Managing Directors' Department outsourced activities**

The most outsourced activity in the MD's department was security where outsourcing of guarding was employed in all physical locations where the firm had plant, equipment and personnel. Security services were among the earliest activities to be outsourced. This emanated from the structural programs initiated by the World Bank and donor countries in the '90s. The program forced the firm to reduce the number of personnel in its employment. A direct consequence of staff reduction was to develop an immediate strategy to cater for the non-core activities that the departed staff usually performed. The immediate services that required outsourcing were cleaning services and guarding activities. The other most outsourced activity in this department was advertisement using print and electronic media. There were suggestions to further outsource advertising, sales promotion, market analysis for planning, research [market] for electricity power needs, public relations, tele-marketing facilities maintenance and management.

#### **4.3.7 Transport, Stores and Supplies Outsourcing.**

The most outsourced activity in the transport, stores and supplies department was inter-stores transfer of materials and stock. There were suggestions to further outsource

purchasing, distribution of stock items, freight audit, fleet management, fleet maintenance and fleet operations.

#### **4.3.8 Customer Service Outsourcing**

The most outsourced activity in the customer service department was prepaid meter installation which was fully undertaken by outsourced firms. There are 40 firms contracted for this exercise. KPLC provides the meter installation materials while the outsourced firm provides labour and transport to site. Private debt collection is also outsourced to pursue debts held by customers for longer than six months. There were suggestions to further outsource meter reading, meter inspection and some front office customer service activities including the call centre. The activities in this department were core to KPLC and very few of them are outsourced.

#### **4.3.9 Transmission Department's Activities Outsourcing**

The most outsourced activities in the transmission department are new projects which are mainly in the form of turnkey projects. These activities occur during major developments of transmission lines and sub-stations. They are usually funded by joint ventures between KPLC, the Kenya government and donor countries and institutions. There were suggestions to further outsource line inspection. Activities in this department were core to KPLC and very few of them are outsourced.

#### **4.3.10 Planning and Performance Monitoring Outsourcing**

The activities in this department are mostly done in-house with low key outsourcing on performance monitoring and ISO audits. There were suggestions to further outsource performance monitoring. Activities in this department are core to KPLC and very few of them are outsourced.

#### 4.3.11 Transparency of the Process used to hire Outsourcing firms

table 4: *Transparency of the Process used to hire Outsourcing firms*

	<b>Process Transparency Level</b>		
<b>Perjocf</b>	<b>Frequency of respondents who agreed there was transparency</b>	<b>Frequency of respondents who disagreed there was transparency</b>	<b>Not sure</b>
Distribution	2	0	0
Customer Service	2	0	1
Information Technology	3	0	0
Managing Director	3	1	0
HR and Administration	1	0	0
Energy Transmission	1	0	0
Finance	1	0	0
Stores, Transport and Supplies	2	0	0
Planning and Performance Monitoring	1	0	0
Total	16	1	1
% of respondents	88.8%	5.6 %	5.6 %

*Note.* Source of data is from study findings.

Table 4 shows that 88.8% of the respondents were involved in the process of outsourcing including all stakeholders. They also indicated that the tendering method was standard and involved committees appointed by the chief executive. In majority of cases, this was open system through the local dailies and using the government procurement rules and regulations. This shows that outsourcing in KPLC is transparent. The ones who disagreed

were of the view that although the process was open, some of the firms were owned by employees through proxy. Former employees owned most of the outsourced firms and therefore conflicts of interest were prevalent.

#### 4.3.12 Satisfaction with level of Service being offered by the Outsourced firms

Table 5: *Outsourced firm level of Service*

Department	Satisfaction level		
	Satisfied	Not satisfied	Not sure
Distribution	1	1	0
Customer Service	2	1	0
Information Technology	2	0	1
Managing Director	4	0	0
HR and Administration	1	0	0
Energy Transmission	1	0	0
Finance	1	0	0
Stores, Transport and Supplies	2	0	0
Planning and Performance Monitoring	1	0	0
Total	15	2	1
% of respondents	83.3%	11.1%	5.6 %

*Note.* Source of data is from study findings.

Table 5 indicates that 83.3% of the respondents were satisfied with the level of service being offered by the outsourced firms. Those who disagreed indicated that some of the service providers did shoddy work as they were not held responsible and accountable due

to inadequacy in supervision on the part of KPLC. This shows that the outsourced firms in KPLC in general provide the expected level of service.

#### **4.3.13 Presence of an effective monitoring mechanism to control the Outsourced firms**

Table 6: *Presence of an effective control monitoring mechanism*

<b>Period</b>	<b>Monitoring present</b>	<b>Monitoring not present</b>	<b>Not sure</b>
Distribution	1	1	0
Customer Service	2	0	1
Information Technology	1	2	0
Managing Director	4	0	0
HR and Administration	1	0	0
Energy Transmission	1	0	0
Finance	1	0	0
Stores, Transport and Supplies	2	0	0
Planning and Performance Monitoring	1	0	0
Total	14	3	1
% Satisfied	77.8 %	16.7%	5.5 %

*Note.* Source of data is from study findings.

Table 6 shows that 77.8 % of the respondents were satisfied with the level of monitoring KPLC has put in place to check the work of the outsourced firm. Those who disagreed indicated that although the tender specifications indicated how monitoring and control will be carried out, KPLC did not have the capacity to supervise and enforce the control mechanisms. The inadequacy in supervision on the part of KPLC affected the

performance of the outsourced firm. However, the majority agreed that the monitoring system in place is adequate although it is very manual. This was illustrated by cleaning services which fall under Administration outsourcing. If a cleaner does not clean an employee's desk, then unless the employee complains to HR, the outsourced firm cannot be penalized. In security outsourcing, a guard may fail to report on duty to guard an unmanned substation. This can only be brought to attention only if the user of the site informs the security supervisor or through an impromptu visit by security personnel.

#### 4.3.14 Reasons for Outsourcing

Table 7: *Extent to which KPLC considered strategic issues during outsourcing*

Observation	Impact			
	High	Low	Not sure	Percent consistent response
Scale of economy	17	1	0	94.4 %
Outsourcer Expertise	16	2	0	88.9 %
Need for cost savings	14	4	0	77.8 %
Accountability	7	10	1	38.9 %
Quality factors	14	4	0	77.8 %
Other	1	17	0	5 %

*Note.* Source of data is from study findings.

Table 7 indicates that all the respondents agreed with the outsourcing reasons employed within the firm. However, majority pointed out that accountability for jobs carried out by the outsourced firm was still the responsibility of KPLC. If there were queries by the customer on the job done by the outsourced firm, then it was the responsibility of KPLC to answer and rectify faults if they occur. This is a factor that KPLC requires to address in

details. Some notices from customers about poor jobs take a long time to reach KPLC's customer care.

#### 4.4 Factors influencing outsourcing strategy at KPLC

This section sought to get opinions on factors that influence outsourcing strategy at KPLC. The respondents were asked to expound on issues related to core activity, flexibility, time delays, economic factors, Management and Technological factors and also quality factors. The answers they gave to the open-ended questions were subjected to content analysis to check the consistency of the responses.

##### 4.4.1 Strategic Factors

Table 8: *Strategic Factors influencing outsourcing at KPLC*

Period	High	Low	Not sure	Percent of respondents with consistent view
"Outsourcing assists KPLC to focus on core activities"	17	1	0	94.4 %
"Outsourcing Improves level of flexibility"	18	0	0	100%
"Outsourcing helps to accelerate re-engineering of business"	18	0	0	100%
"Outsourcing helps to re-direct resources for greater returns"	4	14	0	77.8 %
Other	15	3	0	83.3 %

*Note.* Source of data is from study findings.



Table 8 shows that all the respondents agreed with the outsourcing strategies employed. However, majority did not manage to relate how KPLC re-directs resources for greater returns. Respondents also indicated that KPLC has been more flexible and has diversified its business into new ventures like Optical fibre, pre-paid metering and automatic meter reading among others.

#### 4.4.2 Economic Factors

Table 9: *Economic factors influencing outsourcing at KPLC*

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Not sure</b>	<b>Percent</b>
"Effect on cost of maintenance"	2	16	0	11.1 %
"Effect on cash flows and Return on Assets"	3	15	0	16.7%
Other	2	17	0	11.1 %

*Note.* Source of data is from study findings.

Table 9 shows that only 11.1% were aware of how the cost of maintenance and development had been affected by outsourcing. Majority indicated that the cost has gone up due to poor workmanship by the outsourced firms. The operating expenses trend is also expounded in figure 4 which has been derived from secondary data collected from KPLC documents. The trend shows that there is no direct impact on reduction of operating expenses in relation to outsourcing of services at KPLC.

## KPLC Operating Expenses

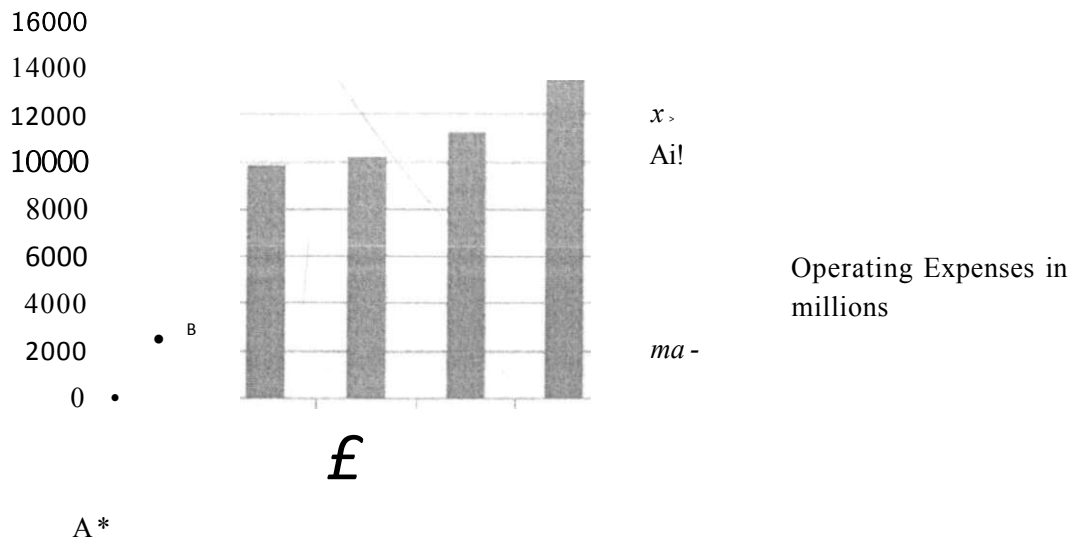


Figure 3. KPLC operating expenses. Data Adapted from "KPLC Annual Report and Financial Statements," Financial year ended 30 June 2010.

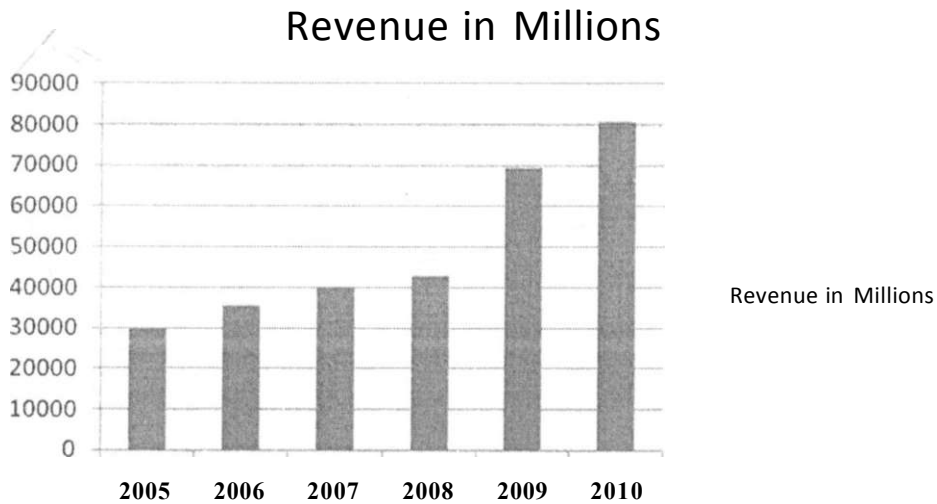


Figure 4. KPLC Revenue. Data Adapted from "KPLC Annual Report and Financial Statements," Financial year ended 30 June 2010.

Figure 4 shows that operating expenses for KPLC have continued to raise in the last six years. This contradicts the expected reduction through outsourcing. Figure 5 shows an increase in revenue over the same period. This cannot however be directly attributed to outsourcing. Further research requires to be carried out to establish the relationship between operating costs and revenue in relation to outsourcing.

#### 4.4.3 Management and Technological Factors

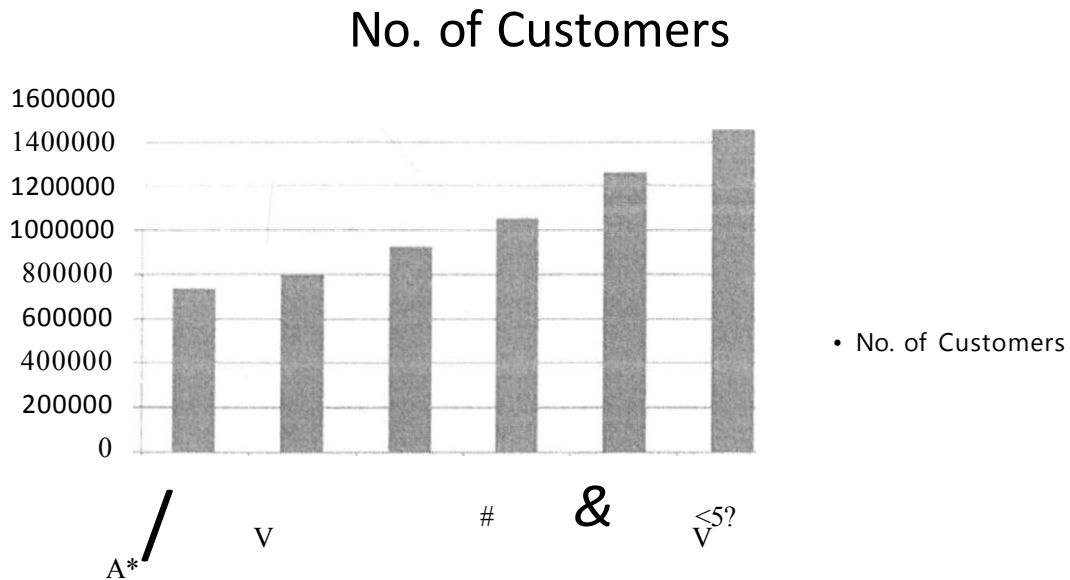
Table 10: *Management and Technological factors influencing outsourcing at KPLC*

Observation	Impact			
	High	Low	Not sure	Percent
"Effect on management performance"	18	0	0	100%
"Effect on Time and workload"	18	0	0	100%
"Response to emergency by outsourced firm"	3	15	0	16.7%
"KPLC Benefits from outsourcer expertise "	16	2	0	88.9 %
"KPLC has enhanced its competitive advantage"	1	17	0	5.6 %
Other				

*Note.* Source of data is from study findings.

Table 10 indicates that 100 % of the respondents were aware of a high impact on management performance. 100 % of the respondents were also aware of a high impact of outsourcing on reduction of workload and time. Only 5.6 9% of the respondents indicated high impact on competitive advantage enhancement by KPLC use of outsourced firms. Majority were of the opinion that KPLC being a monopoly, it did not have major

competitors and competition was insignificant. The trend shows that there is a direct impact on more enhancements of management factors by outsourcing firms.



*Figure 5.* Number of KPLC Customers. Data Adapted from "KPLC Annual Report and Financial Statements," Financial year ended 30 June 2010.

Figure 5 shows the trend in new customer connections by KPLC annually. The trend shows an annual increase. Management had a target to connect 200,000 customers annually. This has been surpassed by over 12,000 customers. Outsourced firms in distribution accelerated power line construction through outsourcing of labour and transport for manual jobs in the department that do not require specialized skills. This is also explained in appendix 3 on cost benefit analysis on hole-digging outsourcing and appendix 4 on principal areas of supply. In operations and maintenance, hole-digging for replacement of rotten poles and underground channels for cables is also outsourced to assist in acceleration of repair of faulty customer installation and distribution network.

#### 4.4 Quality Factors

Table 1 1: *Quality factors influencing outsourcing at KPLC*

Observation	Impact			Percent
	High	Low	Not sure	
"Effect on Quality of service"	15	2	0	83.3 %
"Effect on quality control and assurance"	14	4	0	77.8 %
"Quality of service before and after outsourcing"	16	2	0	88.9%
Other	12	.	0	66.7 %

*Note.* Source of data is from study findings.

Table 11 indicates that 83.3 % of the respondents were aware of a high impact on Quality of service. 77.8 % were aware of a high impact on quality control and assurance arising from outsourcing of services. 88.9% indicated that the quality of service was high after using outsourcing services. However some respondents indicated that some outsourced firms had very poor quality of service.

#### 4.4. <sup>C</sup> Outsourcing Improvement at KPLC

Table 12: *Outsourcing improvement at KPLC*

Observation	Respondents with similar opinion	Percent
"Involve stakeholders on how to monitor and evaluate work done by outsourced firm"	2	14.3%
"Employ more supervisory staff on the quality control section to	4	28.6 %

check effectively work done by outsourced firm"		
"improvement on transparency, accountability and supervision"	3	21.4%
Set higher standards and comprehensive tendering process to enhance quality control	5	35.7 %

*Note.* Source of data is from study findings.

Table 12 shows that 35.7 % of the respondents would prefer if the firm set higher standards and comprehensive tendering process to enhance quality control from the work done by outsourced firms. 21.4% on transparency improvement, and 28.6 % on employment of more supervisory staff.

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

## **5.1 Introduction**

The chapter addresses the research objective outlined in chapter one which was to determine the factors that influence outsourcing strategy in KPLC. This chapter includes the summary drawn from the study, conclusions, recommendations, limitations and suggestions for further research.

## **5.2 Summary**

The strategy of outsourcing has been practiced in Kenya Power since 1996 when the firm implemented the first restructuring program. This emanated from the structural programs initiated by the World Bank and donor countries in the '90s. The program forced the firm to reduce the number of personnel in its employment. A direct consequence of staff reduction was to develop an immediate strategy to cater for the non-core activities that the departed staff usually performed. The immediate services that required outsourcing were cleaning services and guarding activities. Due to the challenging external environment it has become necessary to study the application of outsourcing in service industry and how it has been applied in KPLC in particular.

The study was an attempt to bring out the strategy in view of a turbulent and competitive environment. KPLC is largely a monopoly with no major competitors. Only about 20 % of the country has electricity. The company has an objective to cover 40% of the country in the next 5 years. The firm has also to deal with customers who are increasingly aware of their rights. KPLC is also a key player in the Vision 2030 which is a National objective

on development. The firm has therefore to adopt and practice business methods which will enhance the aim of becoming world class as its vision entails.

The study shows that there are many benefits derived through outsourcing strategy. Firms can gain enormous competitive advantage to enable them survive in the global competition and the turbulent business environment. Outsourcing has been embraced by many firms worldwide and the trend appears to be on the increased use of the same.

### **5.2.1 Extent of outsourcing practice within KPLC**

The extent of outsourcing practices refers to how much and the type of outsourcing activities the firm is involved in. From the results of the study, KPLC has outsourced most of its non-core activities and some core activities. The study identified 43 processes which have been outsourced.

### **5.2.2 Factors that influence outsourcing strategy at KPLC**

Several factors and their importance were heighthed by respondents as applied in the outsourcing strategy at KPLC. This is outlined in the summary in this section. The section highlights these factors and discusses their application as explained by the respondents.

For Strategic Factors, Content analysis was used to determine the consistency of the opinions of the respondents involved in outsourcing. The importance of this factor was highlighted by the outsourcing activity carried out in the Information Technology and Telecommunications department where the business unit has been able to diversify into fibre optic leasing to supplement power sales. A fibre optic cable has been laid on the power grid network throughout the country to enable KPLC to participate in the current global information communication and technology innovation. "Dark fibres" have been leased to mobile telecommunication companies such as safaricom, Wanachi group, Jamii



Telkon and Kenya data Networks as an alternative to sale of power. This indicates that KPLC has been flexible enough to undertake more innovations and venture into more business alternatives.

On Cost of outsourcing, content analysis was used to determine the consistency of the opinions of the respondents involved in outsourcing. The importance of this factor was highlighted by the outsourcing activity carried out in the distribution department. The cost savings were more than 500%. The details of the calculations are shown in appendix 3. KPLC determines a baseline cost of labour element and in its specifications and gives this amount as piece-rate.

On time and workload reduction through outsourcing again content analysis was used to determine the consistency of the opinions of the respondents. The importance of this factor was highlighted more clearly by the outsourcing activity carried out in the distribution department. It used to take a team of six men to dig four holes in one day. However, when the jobs were handled over to outsourced contractors, the time to do the holes was reduced by as much as four times. Other departments had similar observations on various and diverse activities.

On expertise knowledge , content analysis was used to determine the consistency of the opinions of the respondents as regards gain in expertise knowledge through outsourcing. The importance of this factor was highlighted more clearly by the outsourcing activities usually carried out in expert field in Information technology and distribution. When the consultant designs new systems in turnkey and development projects, KPLC employees are trained to gain the knowledge. In most cases, the employees are trained so well that they are able to maintain the systems far into the future. This observation is similar in many of the departments observed across KPLC.

On quality factors, content analysis was used to determine the consistency of the opinions of the respondents as regards improvement of quality of service in KPLC gained through outsourcing. The importance of this factor was highlighted more clearly by the time spent on activities of maintenance and customer service which had increased significantly. However, majority of the respondents pointed that there is need for KPLC to enhance supervision of the outsourced firms and monitoring the work done to ensure quality of service. This observation is similar in many of the departments observed across KPLC.

### **5.2.3 Transparency of decision to outsource**

The process used to make the decision to outsource in KPLC was highlighted by asking an open-ended question to respondents on whether they were involved in the process. Majority of the respondents indicated that they were involved. They had the opinion that since the process used to hire the outsourced firm was a public tender, which involved adverts through the local media, then this ensured transparency.

However, some respondents indicated that there is conflict of interest as some of the firms are owned by employees through third parties. This later affected the quality of work and the ability of KPLC to effectively supervise the outsourced firm.

## **5.3 Conclusion**

This study sought to determine factors that influence outsourcing strategy in KPLC.

The study concludes that KPLC practices outsourcing. The extent of outsourcing is high in some departments like Human Resources and Distribution. Outsourcing is also practiced in some core activities in Distribution department which involves design and construction of the power lines. There is greater drive towards the rise of outsourcing as a strategy to cut costs to pursue the core business activities & outsource the non-core or non- strategic processes.

Factors that influence outsourcing strategy in KPLC were several and include cost, time and workload reduction and access to expertise knowledge. Others are Management performance improvement, flexibility and quality improvement.

#### 4. 5. **Limitations of the study.**

Major limitation was time and money. This restricted the study from being conducted in the service industry as a whole within & outside Nairobi. It took about two months to collect the data because most of the prospective respondents were senior managers and functional heads who are busy and did not have time for the interviews. Furthermore there was an increase in the number of requests for research information putting a great deal of pressure on respondents especially those in the human resources department who were also heavily involved in the culture and rebranding exercise currently going on at KPLC.

The study was also limited to one firm only which is a major limitation when it comes to generalization of results findings. KPLC being a government parastatal and a monopoly provided its own set of limitations. The environment in which it operates is protected to some extent by the government due to its strategic importance.

#### **5.5 Recommendations**

This section outlines the recommendations and suggestions for further research. Outsourcing has been practiced in service industry in Kenya from the 1990s. It continues to be one of the most dynamic trends within business today. For KPLC it is recommended that the firm enhances its capacity to monitor and control the work of the outsourced firms by employing more supervisory staff on the quality control and inspection section to effectively check work done by outsourced firm. It is also recommended that the firm sets higher standards and a comprehensive tendering process

to enhance quality specifications so that the work of the outsourced firms is monitored effectively at implementation stage.

This research was limited to KPLC only. It could be extended to cover more service firms within Kenya including the banking and tourism sectors. Value chain analysis and supply chain management draws heavily from outsourcing. By carrying out a study in various fields, the findings can be utilized in industry and academics. From the findings of the study, it is recommended that further research could be done in strategies to ensure that outsourcing actually adds value especially in reduction of operational costs, how firms monitor performance levels of outsourced firms, outsourcing competition between local and foreign firms and the effect of outsourcing on the national economy.

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## APPENDIX 1: Letter of Introduction



The Kenya Power & Lighting  
Co. Ltd.

*The Kenya Power & Lighting Co. Ltd.  
Central Office - P.O. Box 10000 - Nairobi  
Telephone - 254-20-3201000 - Telex 'ELECTFVC'  
Fax - 254-20-364485  
Stimbs Kibot Road*

Our Ref;

Your Ref; ~~ZUJ & BA/4/MDMU~~

ZO/ July 2011

### TO WHOM IT MAY CONCERN

#### RESEARCH APPROVAL - DANIEL W. KINITI

Reference is made to the subject matter mentioned above.

Kindly allow Daniel W. Kiniti, Chief Engineer, IT & T (Nairobi) and a student of Nairobi University pursuing his MBA, to carry out a research project in the Company on "Factors that influence outsourcing strategy in Kenya".

This authority notwithstanding, discretion must be exercised in the use of company information including business strategies and policy documents.

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

Yours faithfully,

For: KENYA POWER & LIGHTING CO. LTD.

**DAVID MONANDI**  
HUMAN RESOURCE DEVELOPMENT MANAGER

**LETTERS OF INTRODUCTION TO RESPONDENTS**

Dear Respondent,

I am a student pursuing a Master of Business Administration Degree (MBA), Strategic Option, at University of Nairobi. In order to meet the requirements of this course, am supposed to carry out a research project in an area related to my course. My research is on "The factors that influence outsourcing in Kenya Power & Lighting Company Limited".

I intend to collect data through an interview guide which is hereby attached.

You have been chosen as one of the respondents\* in the above study and am requesting you to kindly participate in this research by completing the questionnaire in the most objective way possible. Your response will be very useful and will be treated with absolute confidence.

Your co-operation and prompt response will be highly appreciated.

Thank you for your participation.

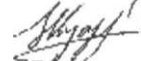
Yours sincerely,

Student



Daniel Wajba Kijuti

Supervisor



Dr. John

## **APPENDIX 2: Interview Guide**

The interview guide will seek to achieve the following objective;

- i) To establish factors that influence outsourcing in Kenya Power.

### **Interview Questions**

The sample questions will be used in establishing factors that influence outsourcing strategy at KPLC.

### **Background Information on the interviewees**

What is your current designation (position) in KPLC?

For how long have you been holding the current position?

Would you change your current duties if given a chance?

### **Outsourcing strategy**

For how long have you been aware of the organization outsourcing its various services?

What are some of the services that the organization has been outsourcing over the last five years?

In your view, has the process been undertaken in a transparent manner with the input of key internal stakeholders being considered?

Are there some services which you believe could be outsourced further?

Are you satisfied with the level of service being provided by the outsourced firms in providing these services?

Does the organization have an effective monitoring mechanism to control the work of the outsourced firms in the course of their duties?

Among the following issues, please expound on the extent to which the organization considered them in choosing the service providers;

Scale of economy,

outsourcer expertise,

need for cost savings,

accountability,

quality factors

## **Factors Influencing Outsourcing at Kenya Power**

### **1. Strategic Factors**

How has outsourcing helped Kenya Power focus on its core activities?

Has the organization improved its level of flexibility through outsourcing of services?

How has the same been achieved?

In your recent business re-engineering, did outsourcing of services help in accelerating the process?

Has the internal resources been redirected to other activities with greater returns as a result of outsourcing? How?

## **2. Economic Factors**

How has the cost of maintenance and development changed in the company since the company started outsourcing some of its services?

How has the organizations return on assets and cash flows been affected by the decision to outsource some of the services?

## **3. Management and Technological Factors**

How has the management performance been affected since adopting the outsourcing of services?

How has the management time and workload been impacted by the outsourcing of services strategy?

How effective in responding to emergencies has the outsource firm been in meeting in time the challenge?

Has as the organization been in accessing and benefiting from expertise knowledge and technologies?

Has the organization enhanced its competitive advantage through outsourcing of services?



## **Quality Factors**

How has the quality of service been affected by outsourcing of services?

Has there been any effect in the organizations quality control and assurance from the outsourcing of services? Please explain.

What comparison in quality of services exists before and after the services has been outsourced?

## **Suggestions on outsourcing improvement**

Thank you very much

## **APPENDIX 3: Cost Benefit Analysis for Hole-Digging Outsourcing**

### **Cost Benefit Analysis for Hole-Digging Outsourcing: Distribution Department**

(Source: interview data from respondent in distribution department)

#### **Hole-Digging before and after Outsourcing**

Before outsourcing, the activity of hole-digging in KPLC was manual. Workers used forks and special spades to dig the required hole to a depth of between 4 to 6 feet deep.

The supervising engineer had no accurate way of measuring the output from the workers as it depended on the texture of the soil and the terrain of the location where the holes were being established. The engineer would set a daily target of one hole per man per day. Idle hours would also be paid for as there was no method of ascertaining the exact time used for digging the holes.

Labour Cost was at 250/= per hour per worker.

For 8 hours a day each worker would be paid  $8 \times 250 = 2,000$  kshs per day.

One team consisted of 4 workers, one supervisor and a driver. The total cost for the team was therefore approximately  $2,000 \times 6 = 12,000$  kshs per day.

The vehicle cost transporting the team and equipment to site was 75 kshs per km. On average, the radial distance was 40 km from the KPLC stores. The vehicle return mileage would therefore be:

$75 \text{ shs} \times 80 = 6000$  kshs.

Total Cost was therefore  $12,000 + 6000 = \mathbf{18,000}$  kshs per day.

It therefore cost KPLC **18,000 kshs per day to dig 4 holes.**

#### **After outsourcing hole-digging**

It cost 60 kshs per hole. The outsourced firm was being paid a piece-rate of 60 kshs per hole. The more the holes the contractor would dig the more he would be paid.

Using the piece rate, some contractors were able to dig as many as 100 holes per day.

In comparison, the outsourced firm utilized 240 kshs per day as compared to 18,000 kshs previously to dig the same four holes.

The hole digging job was too manual for KPLC employees. The workers were no longer motivated to continue with hole digging as a full-time occupation. The exercise required to be outsourced so as to save cost and reduce delays.

#### **Advantages of contracting hole-digging activities in KPLC**

1. Cost saving was enormous. The piece rate method of compensating the outsourced firm saved as much as 400% of the previous resources being used before outsourcing. Overheads like insurance cover for workers and equipment were also avoided.
2. Avoidance of management overheads was possible. The supervisors who had been allocated to each team were deployed elsewhere within the department.
3. Increased speed of delivery. Reduction of time delays in construction of power lines was possible. Jobs could be accelerated by significantly cutting time taken to carry out manual work.
4. Accumulated workloads which would have taken as much as four years to clear were cleared in less than two years time using the outsourced contractors

