

**BUSINESS PROCESS OUTSOURCING STRATEGY IN THE AUDIOVISUAL
INDUSTRY IN KENYA**

**BY
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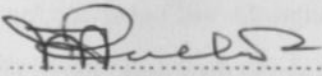
**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
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DECLARATION

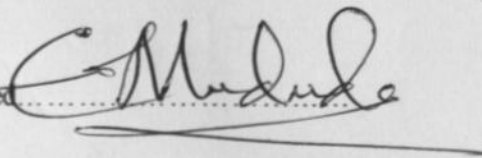
This research project is my original work and has not been carried out in any other university

Paul Omuya Machoka

Signed: 

Date: 28TH NOV. 2008

This research project has been submitted with my approval as a university supervisor

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ABSTRACT

Outsourcing is a business philosophy that implies entrusting business to other people, (outsiders) to perform them on your behalf. When employing a BPO strategy it is important to understand the basic assumptions. The issue is not on cost saving or returns on investment ROI. But to outweigh the benefit realized in the short-term or long term. The Kenya Government is doing much to set up the ICT infrastructure and encourage the BPO in the country. The benefits that can be derived from companies outsourcing some of their services are numerous and firms only need to take advantage of the available opportunities.

The objective of the study was to determine the extent to which business process outsourcing has been adopted as a strategy in the audiovisual industry in Kenya. The design for the study was a descriptive survey. This was because of the small number of audiovisual media houses that are currently established in Kenya. The targeted respondents were the managing directors and or the departmental heads of the audiovisual media houses.

Data was collected using semi-structured questionnaires and was analyzed using descriptive statistics. The data was coded and analyzed using SPSS (Statistical Package for Social Sciences) and excel packages. The descriptive statistics were then used to present the results.

From the study, the researcher found that that audio visual industries in Kenya practiced business process outsourcing and this was mainly to reduce overall costs, it was not a strategic move, to avail more time for other services and also because BPO takes advantage of external expertise/experience.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

1.1.1 Perspectives of Business Process Outsourcing

Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non-core company work (Kotler, 2003). More companies prefer to own brand rather than physical assets they are de-capitalizing. A few companies are moving toward hiring outside parties to provide almost all services (Kotler, 2003) companies outsource a wide range of services, all aimed at creating competitive advantages, these are Accounting and financial services, human resource services, customer care services, security services, and cleaning services. This is because these services are non-core and repetitive in nature thus similar in almost all organizations. Furthermore they can be done by an outside company at cheaper cost or at the same cost but in better ways (Quinn and Hilmer, 1994).

When outsourcing became a buzzword a few years ago, the talk within local businesses was on the extra jobs to be created, especially in the firms selected to do non-core duties. Reduction of labour costs was the main for outsourcing. By that time, industries in Japan, the US and other Western countries had established subsidiary plants in Singapore, China and other nations to reap from a less costly labour. Jobs were subsequently created there, popularizing the concept. Spurred by this, Kenya's Information and Communications permanent secretary Bitange Ndemo announced this year the Government's intention to set up outsourcing incubators. A fibre optic cabling project to improve internet access and lower costs by 40 percent would make Kenya an attractive outsourcing destination. This would put the country into competition with established destinations like China, Singapore, India, Russia and Malaysia (Wamari, 2007).

In the meantime, outsourcing is generating interest among local companies, though for different reasons. Many organizations are now outsourcing, albeit minimally. They are handing out support functions such as transport management, cleaning services and mail handling to third parties. This process is having direct implications on human resource. Outsourcing can render an

entire department redundant, even as it creates employment in the specialist company that is sub-contracted (Wamari, 2007). As Okuttah (2007) asserts, Kenya is slowly coming to terms with the enormous potential of BPO.

Business Process Outsourcing (BPO) has now been earmarked among key vehicles to the implementation of Vision 2030. The Vision, which aims at a GDP growth rate of 10 percent per annum over the next 25 years, has a proposal to design and establish one major BPO park in Nairobi, Athi River, that will have world class infrastructure developed by top international suppliers. BPO involves providing services via the internet to companies and organizations in the developed world like Britain, USA and Canada (Ratemo, 2007).

Some Kenyan organizations are subcontracting some of their business and it is often viewed as a means of augmenting limited resources and skills while enabling the contractors to concentrate on their main area of expertise. During the end of the last century, however, there has been a rapid growing use of the term outsourcing. Which is mainly the practice of handing over the management i.e. planning, coordinating, controlling and directing the operation of certain functions to an independent body, third party to run on one's behalf. Basically, outsourcing is the taking expertise of the competitive advantage of suppliers and the concentration of activity on those functions, where the buyers' organizations has its distinctive competence i.e. outsourcing non-core businesses in order to realize capital for core business. This is considered to be one of the ways of developing sustainable competitive advantage. Today, BPO is a strategy which has become very popular within the service industry in Kenya. Recent studies conducted are based on those done in developed countries.

The study carried out by Kinyua (2001) was based on a case study on outsourcing of selected financial activities by large firms quoted in the Nairobi Stock Exchange. He argues that for a company to be successful it should have a portfolio of competences rather than a profit of businesses. Another study conducted by Kirui (2001) focused on BAT as a case study. He focused on how competitive advantage through outsourcing of non-core logistics activities within the supply chain of BAT could be beneficial. He says that BAT used a strategy in which the firm worked in partnership with Tibbet and Briten Company. But there were limitations in a changing environment under which the study was conducted. Also there was high management turnout in

their roles. Nyarandi (2001) found out that most outsourcing initiatives are formed with clear objectives. Implementation is not carried out well and this might account for the dissatisfaction in outsourcing. Motari (2002) on the other hand focused on the outsourcing of logistics in the manufacturing sector.

Today the main activities which have been traditionally carried out in house such as security cleaning, logistics, catering mailing, just to mention a few are considered as a BPO strategy. The practice of outsourcing is currently globally widespread across all sectors of the economy. The message is very clear here, that entrusting a function to a third party. The activity must be carried out gradually and handled with care to ensure that its potential benefit is fully realized. This holds true, right, because there are several cases in which a BPO strategy has ended up in a waste. BPO is a relatively young industry in Kenya.

1.1.2 The Audiovisual Industry in Kenya

The audiovisual industry in Kenya is a diverse and vibrant growing industry which faces an uncertain future. Due to liberalization, the industry has witnessed tremendous growth in Kenya. The phenomenal growth of private media, led by the explosion of radio and television stations in the region over the past 15 years since liberalization of the sector began, has established the dominant position of private media players in the region. Many privately owned publishing and broadcasting companies have been established.

Kenya, compared to nations in other developing countries, enjoy a vibrant audiovisual industry, offering opportunities for entrepreneurs, both local and foreign. Kenyans now have access to over 6 TV channels (some which incorporate international satellite channels), keeping them in touch with world developments as they happen. Today, about 21 FM radio stations and 80 other stations command the airwaves

Anyone visiting Kenya or researching the industry will notice the dominant and established mainstream audiovisual are: The Nation Media Group Limited who have a TV channel and a Radio channel and has also expanded into Uganda and Tanzania with both print and electronic; the Standard Group which publishes The Standard and own Kenya Television Network (KTN);

Royal Media which has several radio stations, a TV station and a newspaper (The Leader); and Kenya Broadcasting corporation that is a major player in television and several radio stations.

Kenya Media Diaries provides a comprehensive statistical analysis of both radio and TV in the country. The report gives a station-by-station analysis of the various radio and TV stations and their reach in the country, based on primary data gathered through a representative national sample. The data is based on the respondents' previous seven days of listening and viewing.

In terms of television reach, two private commercial services, Kenya Television Network (KTN-TV) and Nation TV (NTV) are shown to be neck-and-neck in terms of national average viewership, with 89% of respondents watching KTN and 86% watching NTV. These two are followed by KBC, Citizen TV, Stellavision TV, Family TV, East African TV (EATV), K 24 and Metro TV in order of viewer ship. In Nairobi, KTN leads with a viewer ship of 91.2%, followed by NTV at 89.2%, followed by the rest in the same order as the national order. KTN also leads in Mombasa, but NTV takes the lead in Kisumu and Nyeri. The state broadcaster, KBC, leads in Nakuru and Bungoma. With regards to radio, Kiss FM has the leading radio listener ship in the country followed by Citizen, Easy FM, KBC-Kiswahili, Capital FM, Kameme, Y-FM, Inooro, KBC-English, Ramogi, Classic and Baraka FM, in that order. (Kenya Media Diary, 2005)

1.2 Statement of the problem

Outsourcing is a business philosophy that implies entrusting business to other people, (outsiders) to perform them on your behalf. When employing a BPO strategy it is important to understand the basic assumptions. The issue is not on cost saving or returns on investment ROI. But to outweigh the benefit realized in the short-term or long term. The Kenya Government is doing much to set up the ICT infrastructure and encourage the BPO in the country. The benefits that can be derived from companies outsourcing some of their services are numerous and firms only need to take advantage of the available opportunities.

Developing a system to identify the perceived quality of services is thus crucial to developing effective strategies and achieving sustainable competitive advantage. Further, it is important for an organization to determine the perception of its users on its service quality which is pertinent to meeting its objectives. As Ngatia (2000) observed, unless the perceptions of the consumer are

understood, it would be difficult for the service providers to achieve their objectives in service quality strategies.

The quality of a service by nature is difficult to determine or evaluate unless it is first experienced. In Kenya much has been studied in the area of service quality and outsourcing. Ndegwa (1996), Masinde (1986), Mwendwa (1987), Mwaura (2002), Murugu (2003) and Njoroge (2003) have studied diverse industries including, Banking/Mortgage, hospitality, transport, port services, power and lighting and the matatu industry. Chebet (2005), Kirui (2001), Mbone (2002), Motari (2002) have researched on outsourcing of services but none of them considered the perception of the outsourced and non-outsourced services. The above studies were conducted in different industries and their findings may not be applied to the audiovisual industry. With this background, it is therefore important that a study be undertaken to determine the extent of use of business process outsourcing in the audiovisual industry in Kenya. Thus, the study seeks to bridge the gap in the above studies conducted in different fields and environments.

1.3 Objective of the study

The objective of this study was to determine the extent to which business process outsourcing has been adopted as a strategy in the audiovisual industry in Kenya.

1.4 Significance of the study

This study will be of use to the following parties: The management of various companies in the media industry will know the extent to which firms in the industry have adopted the BPO strategy. This will help them ascertain the importance of adopting BPO in their own firms so as to benefit from the process. The academics and researchers will use this study as a basis of further research into areas such as the perception of quality of outsourced customer care services compared to in-house services in private companies further more they can carry out the same research as a case study so as to get further details.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction.

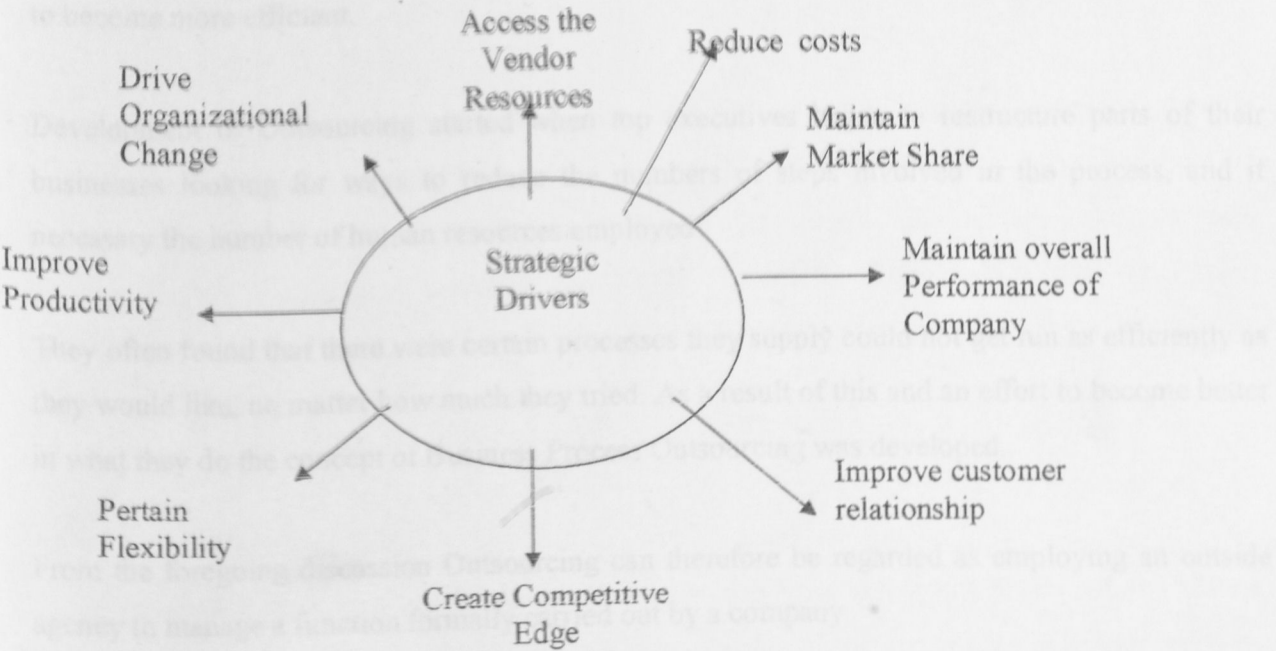
Logistics is the process of planning implementing and controlling the efficient cost affective flow and storage of raw materials, in process inventory, finished goods and related information from point of origin to point of consumption for purpose of customer requirements (Procurement and logistics magazine – U.S.A 1997). According to Ngwalo (1997) purchasing is the process of acquiring of goods and services from suppliers with a consideration. In addition to that he defines procurement as purchasing in a broad sense by which all classes of resources. (People, materials facilities and services) for a particular project operation are obtained. According to Ngwalo “We always do procure but we don’t purchase human resource” (Business Times, 1997) Outsourcing – management strategy by which “non-core functions are transferred to specialized, efficient external providers. Outsourcing “it is not outsourcing but it is partnership between company and vender or services provider. The giving of responsibility for service delivery to outside vender who are experts about a business and whose primary focus is to provide that particular service (Butterfield and Wolfe 1990): Outsourcing takes place when an organization transfers the ownership of a business process to a supplier, the buyer does not instruct the suppliers how to perform its task but focuses on communicating what result it wants to buy/achieve

2.2 Contracting Vs Outsourcing

Contract management, is defined as a process that enables parties to a contract fulfill their respective legal and contractual obligations in order to deliver the objective required from that contract. A contract is a legally binding exchange of promises that form an agreement which the law will enforce. Outsourcing is a contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently providing (Catherine Ngahu, 2007)

Figure 1: Strategic Drivers to outsourcing

This is like inventing the wheel of success:



2.3 The Concept of outsourcing

As organisations redirect valuable internal skills and capabilities to high value adding activities, the sourcing debate has moved from whether to outsource, to what and the quality of outsourced services (Venkatraman, 1997). To become truly competitive, corporations have been downsizing, rightsizing, restructuring and re-engineering.

Many organisations are working towards the concept of organisation dealing with core or strategic activities, surrounded by a network of smaller companies and individuals (associates) providing a range of supporting ancillary services on contracted basis. These services must be performed at the highest standard possible so as to meet quality requirements (Daniels, 1998).

Outsourcing is a business philosophy that implies employing other people to do things for you. It allows the burden of employing staff and the obligations that go with it. Outsourcing is not a new concept. It has most likely been used in one form or another in many businesses, what is different today, is its rapidly growing use of the term.

According to Adams and Hotman (1996), the term Outsourcing became more popular in the early 1990's when large companies began to downsize or business re-engineer, their business seeking to become more efficient.

Development of Outsourcing started when top executives began to restructure parts of their businesses looking for ways to reduce the numbers of steps involved in the process, and if necessary the number of human resources employed.

They often found that there were certain processes they supply could not get run as efficiently as they would like, no matter how much they tried. As a result of this and an effort to become better in what they do the concept of Business Process Outsourcing was developed.

From the foregoing discussion Outsourcing can therefore be regarded as employing an outside agency to manage a function formally carried out by a company.

In purchasing and supply chain management, Outsourcing really means finding new suppliers and new ways to secure the delivery of raw materials, goods components and services. It means that one uses the knowledge, expertise and creativity of new suppliers which was not used previously.

In Outsourcing, you are not buying merchandise or products or services, but rather capacity, time or expertise (supply management magazine, 1996)

The outsourcer here could be defined as a service provider, outside the company acting as an extension/agent of the company's business but responsible for its own management.

2.4 Why Organizations Outsource.

Organizations outsource for various reasons. Competition is becoming stiffer; one measure to gain competitive advantage is through cost saving (Michael Porter, 1997). Handing over purchasing for example, to an external body is a mistake argues, Sue Flemming. But Chris Stapleton says that his firm has reaped the benefits.

“Would you trust a stranger with your baby? “Probably not, so why should you trust an outsider to choose what should or should not be outsourced from your organization,” argues Sue (Supply Management Magazine).

In today's world, business cannot ignore opportunities for cutting cost of purchasing while protecting service and product performance (Supply Management Magazine), but outsourcing has been receiving more column inches in recent years than any other subject associated with business (Supply Management magazine, Jan 2007). The current like attitude is that procurement can be outsourced but we must take care not to outsource the core business - the sole what the organization does best.(Supply Management Magazine)

2.5 Benefits of Outsourcing

There are several ways in which a company's resources can be leveraged. As Quinn and Hilmer (1994) show, one of the ways is through maximization of returns on internal resources by concentrating investments and energies on what the enterprises does best. Another way is through well-developed core competencies providing formidable barriers against present and future competitors that seek to expand into the company's areas of interest. This helps in facilitating and protecting the strategic advantages of market share. Another way is through full utilization of external suppliers' investments, innovations and specialized professional capabilities that would be prohibitively expensive or even impossible to duplicate internally. Lastly, a company's resources can be leveraged through joint venture strategy which is said to decrease risks, shorten cycle times, lower investment and create better responsiveness to customer needs.

If supplier markets were totally reliable and efficient, rational companies would outsource everything except those special activities in which they could achieve a competitive edge i.e. their core competencies (Quinn and Hilmer, 1994). However most supplier markets are imperfect and entail some risks for both buyer and seller with respect to time, quality, price and so on. Bendor (2001) identifies several benefits of outsourcing in his web article 'The Dirty Dozen' and further proposes preventive measures. He brings them out as the common mistakes vendors and buyers make while offering or receiving the service.

2.6 Making the Decision to Outsource

Before an organization decides to outsource all or part of customer care services, it is essential that the management understands exactly what happens in that function. Though it may take a while to identify all of the activities associated with running a customer care department, not to mention what they cost, this information is central to any outsourcing decision. Once these have been identified, the organization can begin to determine which, if any, should be outsourced (Byham, 2000). The decision to outsource is said to originate from two main factors, technology and competition (Armstrong, 1999).

2.6.1 Technology

The technology of the business exerts major influences on the internal environment and how it is organized, managed and carried out. Armstrong (1999) asserts that the introduction of new technology may result in considerable changes to systems and processes he notes. The availability or the lack of technology in a firm may be the cause to outsource some HR functions. Consider a case where an organization is introducing a new software system into it so as to facilitate the processing of document. The HR department would have the responsibility of training the required staff on how to use this newly introduced technology.

Due to the organization's resource inability, the cost of both introducing the software and training the necessary staff is neither appropriate or in line with the firms policies. On both occasions the organization would want to look at the existing options. It could either decide to or not to hire out the services of a professional to train it's staff, especially if cost is a major factor being considered and if the firm has put in place policies on the management of costs.

2.6.2 Competition

Competition is on the increase worldwide. Kenya is increasingly penetrating into the international markets and hence experiencing a great deal of pressure from competition. The need to survive has brought about urgency especially among once monopolistic institutions to cut down costs at all levels of the business and in all units of the same.

Armstrong (1999) explains that on the other hand customers are demanding more as new standards are reached through international competition. As a reaction to this competition organizations are becoming 'customer-focused' speeding up response times, emphasizing quality and continuous improvement, accelerating the introduction of new technology, operating more effectively and 'losing cost'. He adds that the pressure for business is to be 'lean and mean', downsize and cut off layers of management and supervision.

With respect to what determines the decision to outsource, standard theory and evidence generally suggests three factors influencing for the decision to re-locate production outside the firm's boundaries (Abraham and Taylor, 1996; Girma and Görg, 2004; Diaz-Mora, 2005). These are saving labour costs, demand volatility and specialized skill.

The most important of these is the possibility of saving labor costs, that is, of cutting wages and benefits payable to non-core employees by contracting out peripheral stages of production to low-wage countries. This supposes that high-wage firms would typically be expected to outsource production more intensively than low-wage firms. The next factor is demand volatility. The more a firm's output is subject to seasonal fluctuations, the more it will try to outsource peak period tasks in order to maintain as steady a flow of employment as possible over time. However, one would expect there to be a negative relationship between demand volatility and the propensity to contract out if the firm were able to internally re-organize tasks at relatively lower costs than outsourcing.

The third factor is the search for specialized skills or equipment that the firm lacks in-house. When firms outsource within the domestic economy, the rate of unionization becomes relevant, even though its impact may be ambiguous: on the one side, unionized firms have relatively less bargaining power with respect to workers and pay higher wages than they might choose to pay. Therefore, a stronger union presence in an industry may induce a firm in that industry to re-locate production in order to save on labour costs. On the other side, however, if the objective of the union is to protect domestic employment, a stronger unionization may be an obstacle to a firm's desire to outsource.

However, as small firms have less flexibility than large firms to react to variability in consumer demand, and they face higher search costs, a positive relationship may emerge between a firm's size and outsourcing. In addition to labour cost-savings, output volume and scale economies, there are other factors that can contribute to the decision to outsource some of its production activities. Swenson (2000), for instance, focuses on changes in international costs. Strong dollar depreciation can lead to higher costs of imports, thus reducing the international outsourcing intensity of firms.

In addition, Gorg and Hanley (2004) point out that export propensity may have a positive effect on outsourcing. The more a firm exports, the greater the possibilities to find low wage foreign suppliers. Finally, technology can play a role (Tomiura, 2004; Bartel, Lach, and Sicherman, 2005), in particular, there is a positive relation between outsourcing and intensive use of computers in the workplace, high R&D intensity, and the presence of a highly skilled workforce within domestic firms. Firms closer to the technological frontier are supposedly more willing to decentralize their activities in order to take advantage of information and techniques that are not directly widely available. For this reason, younger firms, having a limited history to learn about their own specific needs, are also more willing to choose a decentralized organizational form than older firms (Acemoglu, Aghion, Lelarge, VanReenen, and Zilibotti, 2006).

If the firm is seen as an 'administrative instrument' that seeks for efficiency gains and the decision to outsource production as a choice made within a particular, vertically disintegrated, governance structure, transaction cost economics (TCE) theory provides the standard framework for identifying other factors behind firm's vertical boundaries (Williamson, 1975; Joskow, 1988; Mazzanti, Montresor, and Pini, 2006).

The decision to outsource or vertically integrate the firm's production activities is one of the most complex choices facing management. Both strategies entail costs and benefits. However, while a great deal of attention has been paid to the factors influencing the 'make or buy' decision, relatively little empirical work has been done to assess the performance implications of

these governance choices. In this context, TCE postulates that aligning transactions with governance structures leads to more efficient outcomes.

RESEARCH METHODOLOGY

This literature has tended to stress the potential advantages associated with outsourcing, in particular, that the former leads to a shift in the cost burdens from the home firm to its suppliers, and enables the firm to specialize in its core activities. On the other hand, vertical integration may enhance performance because of the coordination benefits associated with internalization and because the re-location of manufacturing activities outside the firm's boundaries may reduce its capabilities by weakening cross-functional coordination, that is, the capability to transfer information and coordination across activities within the same production system (Mahoney, 1992; Teece, 1996; Leiblein, Reuer, and Dalsace, 2002).

The research problem was studied through the use of a descriptive survey. Descriptive research portrays an accurate picture of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amounts of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al., 2007). descriptive survey was therefore deemed to be most appropriate to the study.

3.3 Population and Sample

The population of study comprised of all the radio-visual media houses in Kenya. There are currently 13 established media houses in Kenya. Thus the target population was 13 media houses in Kenya.

Given that the number of radio-visual media houses is not large, all the units were surveyed. This then makes that this was a census of all the media houses.

3.3.1 Data Collection procedures

The type of data that collected was primary data. The data was collected using questionnaire. The questionnaire were administered using drop and pick method. The respondents of the questionnaires were the managing director and or departmental heads of the radio-visual media houses. Secondary data was also sought to corroborate the information received from the use of primary data. This information was found in magazines as well as newspapers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology. Specifically, the chapter outlines the type of design the study took, the population targeted by the study, the sample size, the data collection method and finally the data analysis techniques used in the study.

3.2 Research Design

The research problem was studied through the use of a descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al., 2007). descriptive survey was therefore deemed to be most appropriate to the study.

3.3 Population and Sample

The population of study comprised of all the audiovisual media houses in Kenya. There are currently 15 established media houses in Kenya. Thus the target population was 15 media houses in Kenya.

Given that the number of audiovisual media houses is not large, all the firms were surveyed. This then means that this was a census of all the media houses.

3.5 Data Collection procedures

The type of data that collected was primary data. The data was collected using questionnaires. The questionnaires were administered using drop and pick method. The respondents to the questionnaires were the managing directors and or departmental heads of the audiovisual media houses. Secondary data was also sought to corroborate the information received from the use of primary data. This information was found in magazines as well as newspapers.

3.6 Data Analysis

The primary data collected was compiled, sorted, edited and classified. After fieldwork, all questionnaires were adequately checked for completeness. This was to scrutinize so as to minimize the variations due to missing responses. The data was then entered into the computer ready for analysis. The quantitative data entered into the computer was then analyzed using the statistical package for social sciences (SPSS-version 12.0) computer programme. This is a software used to aid in the analysis of data. The descriptive statistics were then used to present the results. The results were presented in terms of pie-charts, table and graphs.

Table 1: Ownership of the Organization

Number of ownership	Frequency	Percent
Local	12	80.0
Jointly owned local foreign	3	20.0
Total	15	100.0

As table 1 shows 80% of the firms in this industry are largely locally owned. Of the firms studied, 80% are owned locally. While only 20% are jointly owned by both local and foreign investors. This, therefore, means that the industry is highly localized as the foreign component is largely ownership is locally owned.

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the analysis and findings of the study from the data collected using the research questionnaire.

4.2 Organizational Data

Table 1: Ownership of the Organization

Nature of ownership	Frequency	Percent
Local	12	80.0
Jointly owned local/foreign	3	20.0
Total	15	100.0

As table 1 shows firms in this industry are largely locally-owned. Of the firms studied, 80% are owned locally. While only 20% are jointly owned by both locals and foreign interests. This, therefore, means that this industry is highly localized as the foreign component in form of ownership is fairly negligible.

Figure 2: Ownership of the Organization

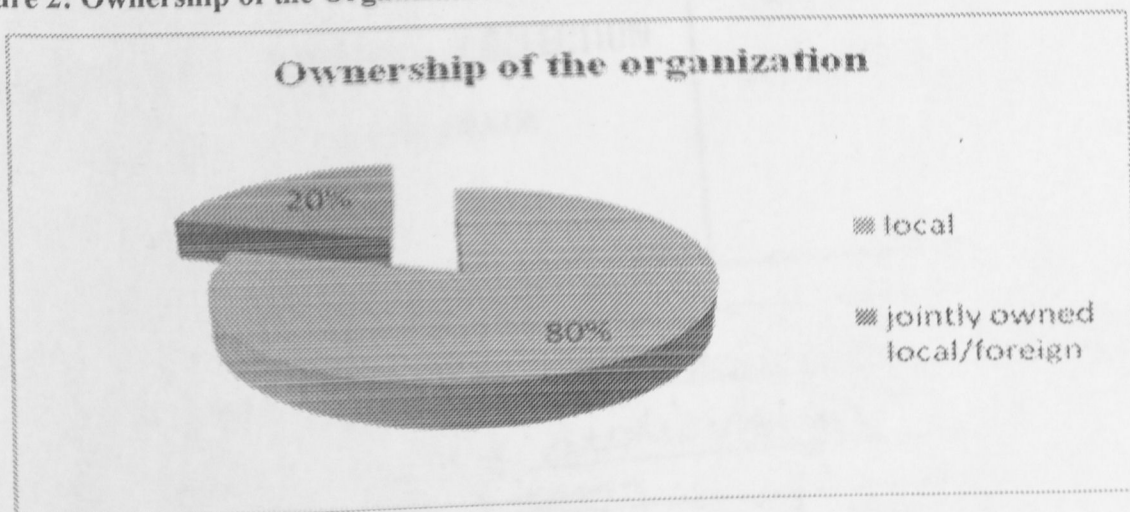
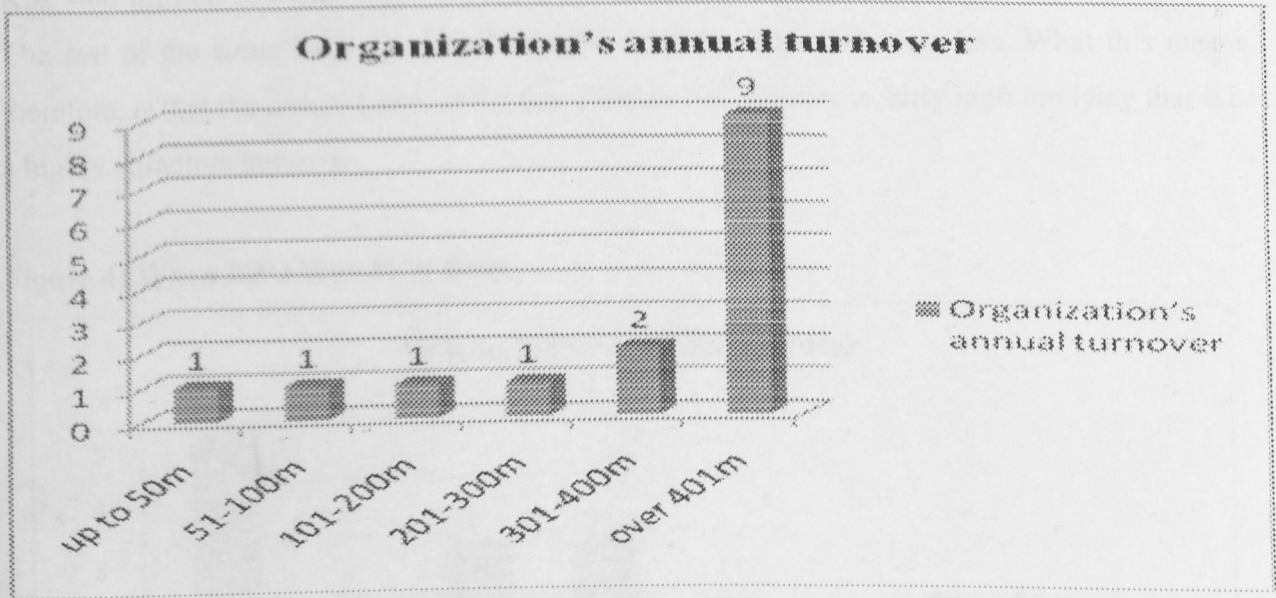


Table 2: Organization's Annual Turnover

Turnover (Kshs.)	Frequency	Percent
up to 50m	1	6.7
51-100m	1	6.7
101-200m	1	6.7
201-300m	1	6.7
301-400m	2	13.3
over 401m	9	60.0
Total	15	100.0

On the organizations annual turnover, the study revealed that the majority of the organizations annual turnover was over 401m as indicated by 60% of the respondents. 13.3% of the respondents reported that their annual turnover was 301-400m, while the respondents who said that their organization's turnover was up to 50m, 51-100m, 101-200m and 202-300m were shown by 6.7% in each case. The above information was also explained using the figure below.

Figure 3: Organization's Annual Turnover



4.3 Sources of BPO Strategy

The study also found that all the organizations practiced BPO as shown by all the respondents.

Table 3: Time perspective of BPO strategy

Year of adoption	Frequency	Percent
before 2003	5	33.3
in 2004	2	13.3
in 2005	3	20.0
in 2006	3	20.0
2007	2	13.3
Total	15	100.0

As both figure 2 and figure 3 indicate most of the firms studied fall within the bracket of over Khs. 400 million in terms of annual turnover. This is represented by 60% of the firms studied. The rest of the firms have an annual turnover of Kshs. 400 million or less. What this means therefore, is that the annual turnover for firms within this industry is fairly high implying that it is a highly attractive industry.

Figure 4: When BPO Was First Done

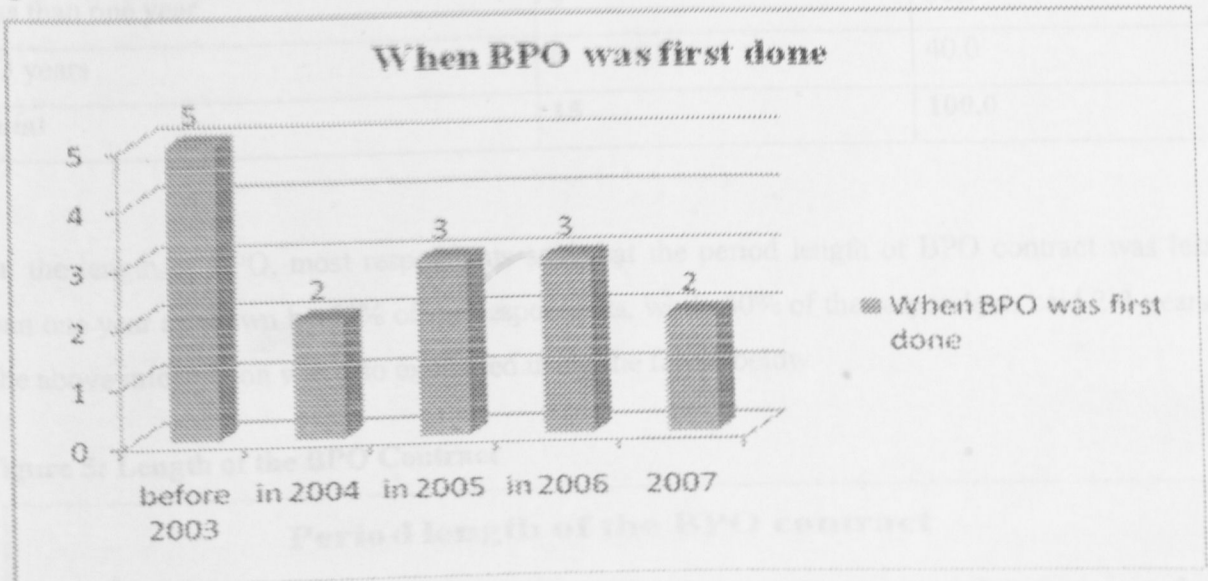


Table 4: Type of Services Outsourced

Type of service	Yes	No
Cleaning	93.3	6.7
Mailing	80	20
Logistics	20	80
Procurement	0	100

The respondents were also requested to give the services that were outsourced by their organization. From the findings in the above table, the study revealed that most organizations outsourced cleaning services as shown by 93.3% and mailing services as shown by 80% of the respondents. Very few firms outsourced logistics services as indicated by 20%. Other services outsourced were security services, statistics and reports. There was no firm which was

outsourcing procurement services. Most of organizations outsourced cleaning services. Very few outsourced logistics. There are no firms that outsourced procurement services. This means that procurement is a core service in this industry thus a sensitive business to entrust to a third party.

Table 5: Length of the BPO Contract

Number of years	Frequency	Percent
less than one year	9	60.0
2-3 years	6	40.0
Total	15	100.0

On the length of BPO, most respondents said that the period length of BPO contract was less than one year as shown by 60% of the respondents, while 40% of the respondents said 2-3 years. The above information was also explained using the figure below.

Figure 5: Length of the BPO Contract

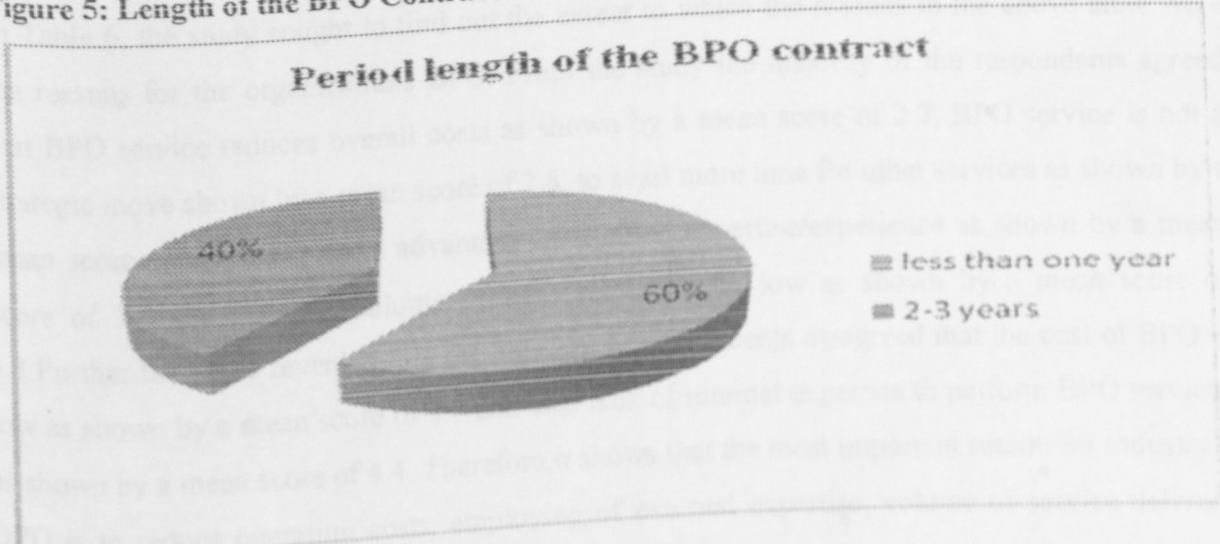


Table 6: Reasons for the Organizations BPO strategy

Reasons for BPO	strongly agree	fairly agree	agree	strongly disagree	disagree	mean
BPO service is not a strategic move	26.7	33.3	13.3	20	6.7	2.5
A BPO service reduces overall costs	20	40	40	0	0	2.2
BPO takes advantage of external expertise/experience	13	6.7	46.7	13.3	20	3.2
Lack of internal expertise to perform BPO services	0	6.7	6.7	26.7	60	4.4
The cost of BPO is low	0	6.7	53.3	40	0	3.7
To avail more time for other services	6.7	13.3	80	0	0	2.7
The volume of BPO services is low	0	6.7	66.7	13.3	13.3	3.3

In Table 6, the study sought to find out the extent to which the reasons in the above table were the reasons for the organizations BPO. From the study the majority of the respondents agreed that BPO service reduces overall costs as shown by a mean score of 2.2, BPO service is not a strategic move shown by a mean score of 2.5, to avail more time for other services as shown by a mean score of 2.7, BPO takes advantage of external expertise/experience as shown by a mean score of 3.2 and also the volume of BPO services was low as shown by a mean score of 3.3. Further the study revealed that the majority of respondents disagreed that the cost of BPO is low as shown by a mean score of 3.7 and also lack of internal expertise to perform BPO services as shown by a mean score of 4.4. Therefore, it shows that the most important reason for industry's BPO is to reduce operating costs, employing of external expertise, volume of service delivery respectively.

Table 7: Motivating Factors to Start a BPO

Factors influencing BPO	Strongly agree	Fairly agree	Agree	Strongly disagree	Disagree	Mean
Need to focus on core business	46.7	40	13.3	0	0	1.7
Desire to reduce overall cost	6.7	80		13.3	0	2.1
Perceived need to reduce the number of staff	0	60	40	0	0	2.4
Need to free management time to perform other activities	13.3	40	46.7	0	0	2.3
Need to improve overall productivity/efficiency	40	46.7	13.3	0	0	1.7
Acclaimed performance of the BPO vendor	0	13.3	40	40	6.7	3.4
Low volume of BPO services	0	26.7	60	13.3	0	2.9
Increased competition	0	60	33.3	6.7	0	2.5
Increased globalization of business	0	73.3	20	6.7	0	2.3
More demanding market place/share	6.7	66.7	20	6.7	0	2.3
Just in time production	53.3	40	6.7	0	0	1.5
Huge service level expectation by customers	6.7	6.7	53.3	33.3	0	3.1
Long supply times (supply lead time)	13.3	36.7	40	13.3	6.7	2.7
Asset base reduction requirements	0	33.3	60	6.7	0	2.7
Need to enhance BPO information systems	0	33.3	33.3	26.7	6.7	3.1

The respondents were also requested to give their level of agreement with the factors in the above table as the factors motivating them to start a BPO. From the findings, majority of the respondents were in agreement that the factors that motivated the organizations to start a BPO were just in time production as shown by a mean score of 1.5, need to focus on core business shown by a mean score of 1.7, desire to reduce overall cost as shown by a mean score of 2.1, need to free management time to perform other activities, increased globalization of business and

more demanding market place/share as shown by a mean score of 2.3 in each case, perceived need to reduce the number of staff shown by a mean score of 2.4, increased competition as shown by a mean score of 2.5, long supply times (supply lead time) and asset base reduction requirements as shown by a mean score of 2.7 in each case, low volume of BPO services as shown by a mean score of 2.9, huge service level expectation by customers and need to enhance BPO information systems as shown by a mean score of 3.1 in each case and acclaimed performance of the BPO vender as shown by a mean score of 3.4. This implies that the factors that motivated the firms within the industry to carry out BPO strategy resulted highly from the need to enhance BPO information systems, performance of BPO centers, customer expectations, increased competition and globalization.

Table 8: Difficulties Encountered In Implementation of the BPO Strategy

Difficulties of BPO strategy	Strongly agree	Fairly agree	Agree	Strongly disagree	Disagree	Mean
identification of the BPO to outsource	20	46.7	26.7	6.7	0	2.2
staff resistance to change	26.7	46.7	13.3	6.7	6.7	2.2
difficulty in cost evaluation on whether to BPO or not	6.7	13.3	20	60	0	3.5
selection of BPO vendor/contractor	0	33.3	60	6.7	0	2.7
drawing contract with vendor/contractor	0	6.7	6.7	73.3	13.3	3.9

The findings in the above table shows the extent to which the variables in the table were difficulties encountered in implementation of BPO strategy. From the findings, the study found out that the difficulties encountered by most organizations in implementing the BPO strategy were identification of the BPO to outsource and staff resistance to change as shown by a mean score of 2.2 in each case, and also selection of BPO vendor/contractor as shown by a mean score of 2.7. The respondents further disagreed that difficulty in cost evaluation on whether to BPO or not and drawing contract with vendor/contractor were difficulties encountered by most

organizations in implementing the BPO strategy as shown by mean scores of 3.5 and 3.9 respectively. From the findings it shows that there were some difficulties in the implementation of the BPO strategy.

Table 9: Risks Encountered as a Result Of BPO

Risks of BPO	Strongly agree	Fairly agree	Agree	Strongly disagree	Disagree	Mean
there is cost of control of the decision making process	46.7	26.7	26.7	0	0	1.8
information linkages occur from the vendor/contractor	6.7	26.7	13.3	46.7	6.7	3.7
there is losing of command on the BPO services	40	33.3	20	6.7	0	1.9
selection of BPO vendor/contractor	13.3	33.3	53.3	0	0	2.4
drawing contract with the vendor	0	6.7	6.7	60	26.7	4.1

The findings in the above table show the extent that the respondents agree with the variables in the above table as risks encountered as a result of BPO. From the findings, the risks encountered as a result of BPO in most firms were cost of control of the decision making process as shown by a mean score of 1.8, losing of command on the BPO services shown by a mean score of 1.9 and selection of BPO vendor/contractor as shown by a mean score of 2.4. The study also found that information linkages occur from the vendor/contractor and drawing contract with the vendor were not regarded as risks encountered as a result of BPO in most organizations. From the analysis as shown in Table 9, it shows that firms in this industry were either risk takers or risk averse. This is evidenced from the table that all risks encountered as a result of BPO fell below 30%. Thus, it implies that some firms in the industry were not sure of their core and non-core businesses.

Table 10: Expectations Held For BPO Service Providers/Firms

Expectations for BPO Providers	strongly agree	fairly agree	agree	strongly agree	disagree	mean
strict adherence to service level	33.3	40	26.7	0	0	1.9
level of cost reduction per period (e.g. months)	46.7	26.7	20	6.7	0	1.9
production innovation	0	46.7	53.3	0	0	2.5
value added services	6.7	46.7	46.7	0	0	2.4
real time communication	6.7	53.3	40	0	0	2.3
integration of information systems with that of firm	0	6.7	13.3	66.7	13.3	3.9
sharing of accruing benefits	0	6.7	13.3	60	20	3.9

The respondents were also requested to give their expectations about BPO service providers/firms. From the findings, most respondents expected that there should be strict adherence to service level and level of cost reduction as shown by a mean score of 1.9 in each case. They also expected real time communication as shown by a mean score of 2.3, value added services shown by a mean score of 2.4 and also production innovation as shown by a mean score of 2.5. The majority of the respondents did not hold expectations for integration of information systems with that of firm and sharing of accruing benefits as shown by a mean score of 3.9 in each case. This implies that the expectations of the firms in the industry were in the integration of information systems and sharing of accruing benefits. Also, production innovation, value added and real time communication were the next in the industry's achievements.

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND RECOMMENDATIONS

5.1 Summary

From the analysis and data collected the following summary, discussions and recommendations were made. The study sought to determine the extent to which business process outsourcing has been adopted as a strategy in the audiovisual industry in Kenya. The analysis was based on the objectives of the study. From the study, all the firms practiced BPO and the majority of these firms did it first as early as before 2003.

The study found that the services outsourced by most firms were cleaning and mailing services. In most organizations, the length of BPO contract was less than one year. From the study, the reasons for most organizations to BPO were to reduce overall costs, it was not a strategic move, to avail more time for other services and also because BPO takes advantage of external expertise/experience.

The study also found out that the motivating factors in most organizations to start a BPO were just in time production, need to focus on core business, desire to reduce overall cost, need to free management time to perform other activities, increased globalization of business, more demanding market place/share, perceived need to reduce the number of staff, increased competition, long supply times (supply lead time), asset base reduction requirements, low volume of BPO services, huge service level expectation by customers, need to enhance BPO information systems and acclaimed performance of the BPO vender. The researcher also found that there were some difficulties encountered in the implementation of the BPO strategy which included identification of BPO to outsource, staff resistance to change and selection of the BPO vendor/contractor.

As a result of BPO, most organizations also encountered some risks such as cost of control of the decision making process, loss of command on the BPO services and also selection of the BPO

vendor/contractor. There were also some expectations held for BPO service providers/firms which included strict adherence to service level, level of cost reduction, production innovation, value add services and also real time communication.

5.2 Discussions

From the study, the study concludes that audio visual industries in Kenya practiced business process outsourcing and this was mainly to reduce overall costs. This was seen as a strategic move to avail more time for other services and also because BPO takes advantage of external expertise/experience.

Outsourcing, like any other business, in the industry has to be a strategic decision aimed at improving the competitive position of the firm. However, the experience of outsourcing could be of benefit or disappointing to the firm if not taken strategically since the firm is entrusting its none-core activity to a third party and moving away from the management of such activities. It is sometimes easy to fall into some common traps.

The study showed that firms in the industry in Kenya are largely locally-owned. Thus it means that this industry is localized as the foreign ownership is fairly negligible and the annual turnover of these firms within the industry is fairly high and a highly attractive industry.

The type of service outsourced in this industry ranges from cleaning services, mailing to logistics. But no firm outsourced procurement services. Thus, this is a core business to this industry which they cannot afford to outsource.

The main reason why firms in this industry employed a BPO strategy was to reduce operating costs and employing of external expertise. The factors that motivated the firms within the industry to carry out BPO strategy resulted highly from the need to enhance BPO information systems, performance of BPO centers, customer expectations, increased competition and globalization.

From the findings, it shows that there were difficulties encountered with implementation of BPO strategy but the firms within the industry were either risk takers or risk averse. Most firms in this industry were not ready to outsource some of their businesses.

Therefore, the study shows that the expectation of the firms within the audio visual industry was fulfilled. This is evidenced from the integration of information systems, production innovations and value added. Thus the industry's competitive strategy was achieved.

The study also concluded that business process outsourcing also enables these organizations to produce on time, to focus on core business of the organization, to reduce overall costs, to free management time to perform other activities, to increase globalization of the business, to reduce the number of staff, to have a competitive advantage in the industry and also to meet the service level expectations of customers.

5.3 Recommendations

From the study, the study recommends that in as much as BPO has been adopted in the audiovisual industry in Kenya, more needs to be outsourced, especially logistics as only 20% of the firms are doing this. Most of the firms are outsourcing cleaning services (93.3%) and mailing (80%). For the organizations to meet the expectations of the customers and also their goals and objectives, they should embrace the BPO strategy. This will also help them to have a competitive advantage over other organizations in the industry.

In fact, none of the firms outsource procurement services. This is not a good sign for the industry. Given that procurement is such an important aspect of all organizations, much time lost in this process can be regained and used elsewhere if some of the aspects of this service can also be outsourced. Further research study to be conducted in other industry, such that the perception of quality of outsourced customer care services compared to in-house services in private firms.

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APPENDICES

Appendix 1: Introductory Letter

Dear Respondent,

RE: COLLECTION OF DATA

The following questionnaire intends to collect information for the academic research. The topic is **Business Process Outsourcing Strategy in the audiovisual industry in Kenya**. Any information which you will provide is for academic purpose and shall be treated with maximum confidentiality.

You are requested to complete the questionnaire and give explanation where essential.

Your kind assistance is appreciated. Thank you for your contribution,

Yours Sincerely,

Machoka, Paul

University of Nairobi

Appendix 2: Questionnaire

SECTION A: Organizational Bio Data

1. Please tick the option that best describes the ownership of the organization.

Local

Foreign

Jointly owned Local/Foreign

2. Your organization's annual turnover in Ksh.

(i) Up to 50m

(ii) 51-100m

(iii) 101 – 200m

(iv) 201 – 300m

(v) 301 – 400m

SECTION B: Sources of BPO Strategy

1. Do you practice BPO (Please tick the relevant answer below)

Yes

No

If you do BOP, please continue to question 2. Otherwise go to question 10

2. Kindly tick when you first did BOP

Before 2003

In 2004

In 2005

In 2006

2007

3. Of the following services, which ones are you currently outsourcing? Please tick.

- Cleaning
- Mailing
- Logistics
- Procurement
- Other (specify)

4. Kindly tick the period length of the BPO contract

- Less than one year
- Between two and three
- Between three and four
- Between four and five years

Use the following key for question 5 – 8, SA – Strongly Agree, FA-Fairly Agree, A – Agree, SD – Strongly disagree, D – Disagree

5. To what extent do you agree or disagree with the following factors as reasons for you organizations BPO.

	SA	FA	A	SD	D
BPO service is not a strategic move.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A BPO service reduces overall costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BPO takes advantage of external expertise/experience.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of internal expertise to perform BPO services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The cost of BPO is low.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To avoid more time for other services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The volume of BPO services is low.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others, (please specify)					

6. Please indicate the extent to which you agree/disagree to the following factors motivating you to start a BPO.

1 represents strongly agree and 5 represents strongly disagree.

	1	2	3	4	5
Need to focus on core business					
Desire to reduce overall cost.					
Perceived need to reduce the number of staff					
Need to free management time to perform other activities					
Need to improve overall productivity/efficiency					
Acclaimed performance of the BPO vender.					
Low volume of BPO services					
Increased competition.					
Increased globalization of business					
More demanding market place/share					
Just in time production					
Hugh service level expectation by customers					
Long supply times(supply lead time)					
Asset base reduction requirements					
Need to enhance BPO information systems.					

7. To what extent do you agree/disagree with following in relation to difficulties that you encountered in implementation of the BPO strategy?

Use the following key for question 5 – 8, SA – Strongly Agree, FA-Fairly Agree, A – Agree, SD – Strongly disagree, D – Disagree

	SA	FA	A	D	SD
Identification of the BPO to outsource	()	()	()	()	()
Staff resistance to change	()	()	()	()	()
Difficulty in cost evaluation on whether to BPO or not	()	()	()	()	()
Selection of BPO vendor/Contractor	()	()	()	()	()
Drawing Contract with vendor/Contractor	()	()	()	()	()
Others, (Please specify)					

.....

8. To what extent do you agree/disagree with the following in regard to risks you encountered as a result of PBO(Kindly rate them as to the level of difficulty)

	SA	FA	A	D	SD
There is cost of control of the decision making process.	()	()	()	()	()
Information linkages occur from the vendor/Contractor	()	()	()	()	()
There is losing of command on the BPO services.	()	()	()	()	()
Selection of BPO vendor/Contractor	()	()	()	()	()
Drawing Contract with the vendor	()	()	()	()	()
Others, (Please specify)					

.....

9. Please tick the expectation you hold for you BPO service providers/firms

	SA	FA	A	D	SD
Strict adherence to service level	()	()	()	()	()
Certain level of cost reduction per period (e.g. months)	()	()	()	()	()
Product innovation	()	()	()	()	()
Value added services	()	()	()	()	()
Real time communication	()	()	()	()	()
Integration of information systems with that of firm	()	()	()	()	()

Sharing of accruing benefits () () () () ()

Others, (Please specify)

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.....
.....
.....

Answer question 10 only if you cannot carry on BPO

10. To what extent do you agree or disagree with the following factors as reasons for your firms not doing Business Process Outsourcing (BPO).

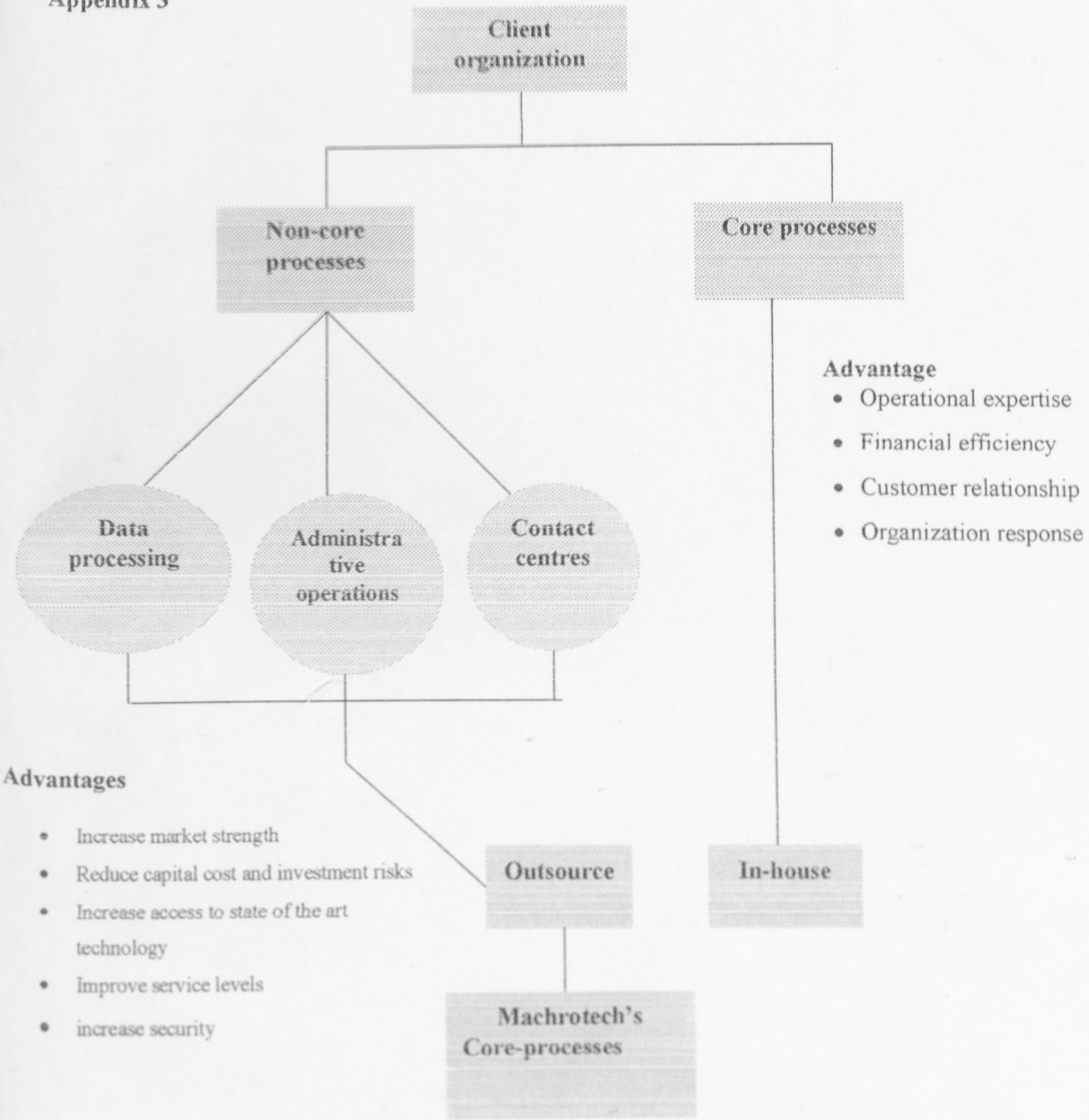
	SA	FA	A	D	SD
The firm is not aware of what is BPO	()	()	()	()	()
BPO is more expensive	()	()	()	()	()
There is no suitable vendor to the market	()	()	()	()	()
All BPO services are considered strategic.	()	()	()	()	()
The firm considers it can perform the activities best.	()	()	()	()	()

Others, (please specify)

.....
.....
.....

Thank you for your assistance and cooperation.

Appendix 3



MachroTech's Business Process Outsourcing Model