

BUSINESS PROCESS OUTSOURCING STRATEGY AND PERFORMANCE OF KENYAN STATE CORPORATIONS

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Abstract

The formulation of business process outsourcing strategy has been one of the most debated management trends in the last twenty years. There has been lack of established consensus on the actual end effect of outsourcing. There is scanty information pointing to the manner in which outsourcing is approached, including its contribution to organisations. It is these gaps that drove the author establish the relationship between BPO and firm performance. The study drew an hypothesis to test the nature of the relationship between BPO and firm performance. This paper was a census study focusing on all the 144 Kenyan State corporations in existence by December 2012. The study managed to get respondents from 112 State corporations drawn from all the six functional classes as per the existing categorization, both primary and secondary data were used for analysis. The primary data was obtained from the information in the questionnaires distributed to the State corporations whereas the secondary data was retrieved from existing reports from the office of the Auditor General and the Performance Contracting instrument. The study employed a combination of both descriptive and inferential statistics, to establish the degree of association among the variables while simple and multiple regression analysis was used to establish the cause and effect, degree and direction of the relationship between the variables. The findings of this study confirmed that Kenyan State corporations were involved in outsourcing, and that BPO had a positive contribution to the firms' overall performance. Thus, the study provides empirical evidence to support that, BPO's benefits as pertains to its contribution to enhancing performance will be realized by the corporations who will adopt the right type of strategies. Strategies that are adoptive to changing market trends and those who will invest in skilled human capital to adequately manage BPO and other processes. This study is expected to form a useful guide to the government as it implements the vision 2030 and especially on policies governing BPO. Being one of the six key sectors of the economic pillar, the findings of this study will make a substantial contribution with regard to how the benefits of BPO can be maximized. The study having focused on State corporations that form a substantial component of the public sector, the findings of this study are vital hence the government may find it useful in the implementation of the vision 2030. Both public sector and private institutions already engaged in or intending to outsource will find this study a useful guide to assist them set up modalities including policies and regulations necessary to govern outsourcing. For those institutions already involved in outsourcing, the findings of this study may form an important benchmarking tool. Having clearly demonstrating the crucial factors necessary for BPO and performance success, decision makers in both public and private bodies will be guided on the need to put in place adequately skilled and capable manpower as well as the need to re-evaluate their approaches to BPO to ensure they are strategic

Keywords: business process outsourcing, strategy, firm performance, state corporations, Kenya, paradigm shift

INTRODUCTION

In response to the contemporary emphasis on cost, quality service and speed, firms have been forced to abandon conservatism for more flexible strategies. Strategies characterized by constant scrutiny, and restructuring of fundamental business processes, with a view to enhancing efficiency. This ensures survival in the harsh business environment. Remaining competitive poses yet another challenge. This has precipitated a shift in thinking within firms. They are no longer viewing their strength as being determined by position in the market only. Instead, the firms are slowly embracing the view that position in the market is a partial measure of competitiveness with the other part being embedded in the internal capabilities (Abdul-Halim and Che-Ha, 2009; Isinga and Werle, 2000). To this end, some firms have gone further to identify their unique resources and distinctive skills and exploiting them to the disadvantage of their competitors (Bettis, 1992; Javalgi, 2003). It is particularly in the process of perfecting exploitation of unique competences

that the notion of Business Process Outsourcing (BPO) is born. Firms are making strategic decisions to outsource what they are weak at and instead concentrating their resources on what they do best, with a view to improving their performance. BPO is therefore born out of a need for competitiveness. This effort is towards enhancing efficiency, hence competitiveness, through achieving higher returns on assets, while committing less capital and increasing flexibility to respond to the environment (Isinga and Werle 2000; Jiang and Qureshi, 2005).

BPO in Kenya and Global perspective

Despite lack of sufficient information linking BPO to thrived firm performance, both the private and the public sector firms in Kenya have over the years embraced outsourcing. In the public sector, BPO may have been mainly viewed as one of the cost cutting measures. This makes it a more cost effective way of operation, especially after the pressure from government for increased efficiency and self-sustenance has increased. Particularly among the State corporations, adoption of BPO may have been driven by the need to comply with

the government's policy limiting operations only to self-sustaining corporations that can effectively compete and survive in the competitive environment (GOK, 1992). Therefore, BPO may be as a result of a narrow objective geared towards reducing overheads through shedding some of the internal activities to external suppliers who could undertake them for a lower cost.

This raises concern as to whether the envisaged benefits of BPO have been forthcoming within the Kenyan public agencies. Some scholars have argued that, if public sector firms operate under the requirement to treat all activities as potentially outsource-able due to envisaged gains, then they may be failing to develop their core competencies (Burnes and Anastasiadis, 2003). This is confirmed by other scholars who posit that, BPO in the public sector is imposed through government policies and regulations with many public agencies failing to develop their core competences therefore missing out on one of the main benefits that outsourcing can bring (Isinga and Werle, 2000).

In the global scene, especially studies in the US and Germany, the determinants of BPO in the banking sector however, offer a different explanation with the US study findings pointing to BPO as emerging due to high production costs resulting to poor performance. As such, firms embrace BPO in a bid to regain a better position in the market. In Germany on the other hand, BPO was found not to be confined only to firms struggling with high costs but also pursued by well performing banks with high revenue diversification hence conclusion that BPO is used as a strategic element in market differentiation to gain further competitive advantage (Angand Straub, 1998; Fritsch and Wullenweber, 2007).

Other countries such as India and the Philippines are considered as among the most significant nations to enter the BPO market. They are singled out as economies impacted positively as a result of their experience and contribution especially in offshoring. The two countries are fast growing BPO destinations both emerging as centre for outsourcing IT software due to experienced and affordable labour pool, cost structure and personnel competences (Kumar, 2005; Munoz, 2006).

The Government of Kenya through the Vision 2030 has however attached more recognition to BPO by identifying it as one of the key six sectors of the economic pillar. The Vision categorizes BPO among the other economic development programs through which the government intends to explore with a view to increasing its Gross Domestic Product (GDP). To make Kenya a leading BPO destination, the government pledges to create a conducive and enabling environment whereby stand-alone operations or joint ventures will thrive hence make the country more attractive to investors. This move partly explains why more firms among them the state corporations have engaged in BPO.

LITERATURE REVIEW

BPO may be a source of enhanced firm competitiveness since competitive advantage is embedded in a set of

relationships across the boundaries of firms rather than residing inside an individual firm (Bharadwaj and Saxena, 2009). This argument notwithstanding, uncertainty and divergent views loom over BPO's impact on firm performance with some scholars claiming that, BPO decisions are not just about do it yourself or outsource, but instead there are long-term relationships which are neither one-off nor pure market in form and which may result to positive image of a firm.

Other claims are that, it is often difficult to specify BPO requirements in a manner that leads to observable and verifiable outcomes (Qu and Brocklehurst, 2003 in Abdul-Halim and Chetta, 2009).

Support for BPO's positive impact on firm performance is anchored on the argument that, one of the main reasons for outsourcing is to enable firms heighten their strategic focus hence concentrate full energies and resources on value chain activities that are at the core of their strategies and for which they can create unique values (Thompson, 2007). Also in support of BPO's positive impact, Gilley and Rasheed (2000) argue that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing narrowly on things they do best. Similarly, other scholars in support for BPO's positive contribution to performance view the distinctive resources gained from the alliance partners as generating higher rents than those generated independently by the resources of each firm (Rodriguez and Robaina, 2006).

To this effect, adoption of BPO has become the norm with outsourcing being viewed as the centre of focus in different sectors due to its envisaged potential to reduce costs and enhance efficiency (Fitzgerald and Khan, 2004). Thus the choice by firms to adopt BPO has been prompted by specific benefits accruing to include: reduced costs often associated with bureaucracies; reduced uncertainty; spreading risks by switching suppliers when market conditions demand; higher quality goods/services due to promotion of competition among outside suppliers; more cost effective technologies; enhanced learning; increased financial flexibility and speed of response and; greater efficiency all envisaged to lead to improved firm's performance (Kotabe and Murray, 1990).

On the other hand, those against the envisaged BPO impact on performance point out that, the contribution of BPO may not be as rated hence raise concern that the benefits are often over-estimated whereas the transaction costs underestimated. This argument draws its support from the pioneer studies relying on financial data which portray evidence of BPO impact as being based on perceptual or self-reported data with contributions limited to narrow areas lacking clarity on how well they co-relate with actual firm performance. Assessment of financial impact has therefore been forced to rely on managers' estimates in place of tangible metrics (Gorzig and Stephan, 2000; Jiang and Qureshi, 2005). PricewaterhouseCoopers (PWC) in Kenya encountered similar challenges in quantifying the benefits of BPO by

relying on pioneer studies on financial data which were generally based on perceptual or self-reported data hence the argument that, the difficult in working out true benefits of BPO is due to the fact that, many outsourcing deals are narrowly tailored focusing mainly on cost reduction.

In his contribution, Thompson Jr. (2007) concerned over BPO benefits point out that, the manner in which BPO decisions are generated, structured and implemented play a major role in determining its impact on firm performance and that not all outsourcing initiatives are strategically calculated hence weak evidence on BPO's positive impact on firm performance.

Specific BPO outcomes seen as negatively impacting firm performance include; destruction of long-run competitive advantage due to reduced innovation and control of firm's activities; shifting of knowledge to supplier organizations; loss of long-run research and development competitiveness; discontinuity of skill supply and retention; high transaction costs eventually eroding the savings made; possibility of ad-hock way of outsourcing which could lead to uncertainty and low morale among employees; eventual loss of market share whereby knowledge gained by supplier is used to market their own aggressively hence achieving market dominance. Cases in point are the Asian firms which have achieved market dominance in US with their initial entry facilitated by supplier arrangement. These shortfalls point to the fact that, while many organizational goals have been dynamic, their approaches have not been flexible enough to change in-tandem with the changes in business. In many firms therefore, BPO may not be necessarily the viable option to attain competitiveness rather a lure into ignoring internal weaknesses as organizations switch to external suppliers (Cooke, 2005; Armstrong, 2009; Levy, 1995; Gilley and Rasheed, 2000).

Scholars have gone further and identified some cases where it may be unnecessary to determine BPO's impact on performance whether positive or negative since the process itself is prone to failure. BPO failures are attributed to firstly outsourcing of activities that should not have been outsourced in the first place. This arises because of firms' failure to understand their core and distinctive capabilities. These are also their source of competitive advantage and should have been retained in-house. Secondly, wrong selection of vendor. This is caused by failure of outsourcing firms to undertake due diligence to verify the capacity of the service providers. Thirdly, writing a poor contract that has no provision for setting expectations, commitments there in and safety nets in case of inherent differences. Fourthly, overlooking human resource issues. These lead to low morale employees who generally view outsourcing as an underestimation of their skills. Fifth, loss of control of the outsourced activity. Here, the outsourcer lacks capability to manage the vendor occasioned by lack of able managers. Lastly, overlooking the hidden costs of outsourcing incurred before and after outsourcing. This is occasioned by lack of legal experts in drawing contracts and/or technical experts for developing service performance levels and; failing to plan an exit strategy which is essential, considering that BPO involves a relationship hence should be viewed on a continuum making it necessary to put in place long-term and short-term exist clauses (Barthelemy and Adsit, 2003).

Conceptual Arguments

The framework is presented through the conceptual model (**Figure 1**) which had four key variables including; business Process Outsourcing depicted as the independent variable; firm performance as the dependent variable.

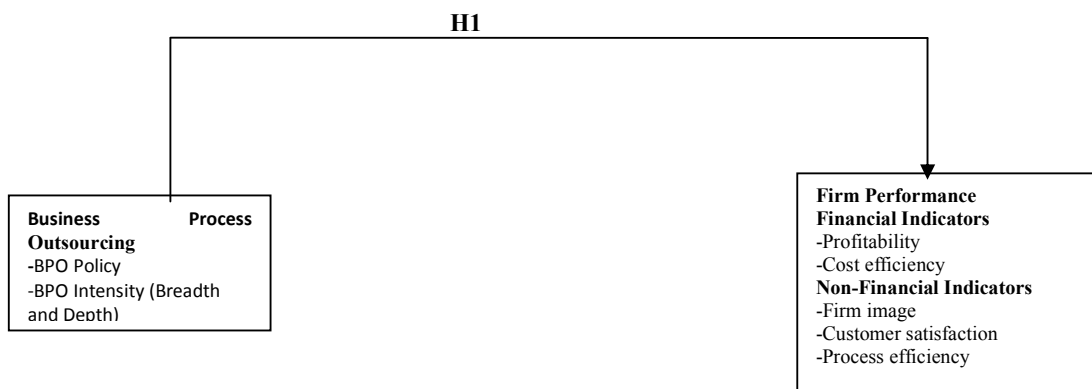


Figure 1: Conceptual Model
Source: Authors, 2013

The effect of BPO on firm performance has been of interests to scholars with some claiming that, BPO may be a source of enhanced firm competitiveness while others having a different opinion hence claiming that, BPO contribution to firm performance may have been over-estimated (Bharadwaj and Saxena, 2009; Thompson

Jr., 2007). Having adopted BPO with a view to achieving cost efficiency, the Kenyan State corporations have envisaged that BPO would make a positive contribution hence have an influence on their overall performance. In view of the arguments in support of BPO's impact, this study depicts BPO as the predictor/independent variable.

HYPOTHESES TESTING

The authors identified key variable indicators to test the following hypothesis:

H1: There is a significant relationship between Business Processing Outsourcing and firm performance.

METHOD

Both Primary and Secondary data was sourced and utilized for the purpose of addressing the research objective. As described by Kothari, (2004), the former is the data collected afresh and for the first time hence original in character while the latter is data that is already collected by someone else and already passed through statistical process.

Primary data was collected by use of questionnaires as the main instrument and were distributed to all the 144 State Corporations forming the study population. The questionnaire was preferred because the targeted respondents were literate and also that it could be administered to many respondents simultaneously. Having been presented in paper format, the respondents allowed expression of their opinion free from interference, chances of interviewer bias was eliminated as well as confidentiality upheld.

The questionnaire was designed on a five point Likert type scale and linked to BPO and firm performance. Questions on BPO elicited data on the existence of a BPO policy and BPO intensity mainly to establish the services/products being outsourced and how much of each was being outsourced; The final part of the questionnaire was designed to capture data on BPO's contribution in the corporations studied and which would be on financial and non-financial performance.

The selected respondents in this study were the Chief Executive Officers/Managing Directors (CEOs/MDs) albeit in-cases where they were not available, officers/managers heading departments or members of the management team in each department became respondents. These were viewed as officers who by the virtue of their positions are responsible for hence expected to be well versed with strategy formulation and implementation and also on matters of procurement of goods/services from external vendors. Such approaches were used by Burnes and Anastasiadis (2003) in their case studies examining different motivations behind outsourcing in public-private sector organisations in UK whereby managers in-charge of strategy and operations were the respondents.

The response rate was 112 out of the 144 corporations registering a 78 per cent return rate. This was a good response rate considering the level of respondents. However, 22 percent of the targeted population declined to respond to the questionnaires citing various reasons among them lack of time, sensitivity of the information required while others expressed disinterest to respond to the questionnaire for reasons not divulged.

Secondary data relating to both financial and non-financial performance of each corporation was obtained from the Auditor General's Office and the Performance Contracting Department respectively

RESULTS

H₁: Relationship between BPO and firm performance

Pearson correlation coefficient was used as the major tool of analysis to test if a relationship exists. The test involved a look at the firm image, customer satisfaction, process efficiency, profitability and cost efficiency as proxies or dimensions for firm performance while BPO policy and BPO intensity (breadth and depth) were the dimensions of BPO. Previous studies concentrated on audited financial reports mainly adopting gross operating surplus as indicators of performance (Gorzig and Stephan, 2002; Jiang and Qureshi, 2006).

The hypothesis was tested as follows:

There is a significant relationship between BPO and overall firm performance made up of; profitability, cost efficiency, firm image, customer satisfaction and process efficiency.

As shown in Table 1, the BPO Intensity (Breadth and Depth), indicating how much the corporation has outsourced against the analyzed outsourced services and specifically production and marketing, showed Pearson correlation coefficient score of .338 at $p < .001$ significant level against process efficiency. This indicates that BPO Intensity (Breadth and Depth) is related positively to process efficiency. The BPO breadth and depth also has a positive relationship against; firm overall performance, profitability, customer satisfaction, firm image and cost efficiency at .33, .322, .299, .26 and, .217 correlation coefficient respectively. Firm overall performance, profitability, customer satisfaction and firm image are at $P < .01$ while firm cost efficiency is at $P < .05$ level of significance. The BPO policy which is a guiding principle indicating the commitment of an organization to BPO registered Pearson correlation coefficient score of .449 at $p < .001$ significant level against overall firm performance. This indicates that BPO policy is related positively to overall firm performance. BPO policy also has a positive relationship against process efficiency, customer satisfaction, firm image and, firm profitability at .448, .380, .379 and, .374 correlation coefficient respectively and at $P < .01$ level of significance.

Going by the above analysis, it shows that, both BPO Intensity and BPO policy being the proxy/dimensions for BPO have significant relationships with all the six parameters adopted in this study as indicators of firm performance. Therefore it can be concluded that BPO has a significant and positive relationship with firm performance. *The hypothesis that BPO has a relationship with firm performance cannot therefore be rejected.*

Table 1: Correlations between BPO and Firm performance

Correlations between BPO and Firm performance									
Factors plus R Score		BPO Intensity (Breadth & depth)	BPO Policy	Overall firm performance	Firm profitability	Firm Cost efficiency	Firm Image	Customer Satisfaction	Process efficiency
BPO Intensity (Breadth and Depth)	Pearson Correlation	1							
	Sig. (2-tailed)								
The BPO Policy	Pearson Correlation	.148	1						
	Sig. (2-tailed)	.134							
Overall firm performance	Pearson Correlation	.330**	.449**	1					
	Sig. (2-tailed)	.001	.000						
Firm profitability	Pearson Correlation	.322**	.374**	.722**	1				
	Sig. (2-tailed)	.001	.000	.000					
Firm cost efficiency	Pearson Correlation	.217*	.181	.461**	.539**	1			
	Sig. (2-tailed)	.027	.078	.000	.000				
Firm Image	Pearson Correlation	.260**	.379**	.796**	.751**	.612**	1		
	Sig. (2-tailed)	.007	.000	.000	.000	.000			
Customer Satisfaction	Pearson Correlation	.299**	.380**	.904**	.661**	.466**	.772**	1	
	Sig. (2-tailed)	.002	.000	.000	.000	.000	.000		
Process efficiency	Pearson Correlation	.338**	.448**	.847**	.776**	.500**	.712**	.768**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

Source: Authors 2013

CONCLUSION

From the findings of this study, several conclusions can be made. Kenyan State corporations are involved in outsourcing of both core and non-core activities. This confirms that the corporations value BPO as one of the initiatives towards performance improvement. This disapproves the view by the competency based view that core activities should be retained in-house and only those functions that are non-core should be considered for outsourcing. Thus although found to be of insignificant impact, the outsourcing of core service by the Kenyan State corporations confirms as viable Prahalad, (1990) view that, some core activities that are not unique and distinctive to firms may not constitute competitive advantage and therefore should be outsourced. These include basic activities which though core to a particular firm, they can be performed equally elsewhere.

Over ally, the study has established that BPO has a positive impact on firm performance. This clears the inconsistencies that had existed surrounding the relationship between BPO and firm performance and particularly regarding the impact of BPO on firm performance.

The study having established that BPO intensity and especially the breadth of BPO significantly impacts on firm performance, firms are advised to ensure thorough audit to properly understand hence discern the activities to outsource and the appropriate time to outsource.

MOTIVATION AND SIGNIFICANCE OF STUDY

This study was essentially undertaken to see the direct relationship between BPO and organisational performance which supports other previous studies. It was expected that the result would be similar to those studies, however these findings confirmed the previous studies but established that though there was a relationship to enhance performance in the organization, non-critical primary activities in an organization should be outsourced. This went against the findings of the previous studies which has traditionally focused on the secondary activities.

Implication on Policy and Practice

This study is expected to form a useful guide to the government as it implements the vision 2030 and especially on policies governing BPO. Being one of the six key sectors of the economic pillar, the findings of this study will make a substantial contribution with regard to how the benefits of BPO can be maximized.

The study having focused on State corporations that form a substantial component of the public sector, the findings of this study are vital hence the government may find it useful in the implementation of the vision 2030.

Both public sector and private institutions already engaged in or intending to outsource will find this study a useful guide to assist them set up modalities including policies and regulations necessary to govern outsourcing. For those institutions already involved in outsourcing, the

findings of this study may form an important benchmarking tool. Having clearly demonstrating the crucial factors necessary for BPO and performance success, decision makers in both public and private bodies will be guided on the need to put in place adequately skilled and capable manpower as well as the need to re-evaluate their approaches to BPO to ensure they are strategic.

CONTRIBUTION OF THE STUDY TO KNOWLEDGE

A major breakthrough was realised in this study in regard to outsourcing of primary activities considered to be non critical. This is a major contribution to knowledge and a paradigm shift from the conventional view of BPO.

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