STRATEGY, FIRM CHARACTERISTICS, BUSINESS PROCESS OUTSOURCING AND PERFORMANCE OF KENYAN STATE CORPORATIONS

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ABSTRACT

The formulation of outsourcing process has been one of the most debated management trends in the last twenty years. There has been a lack of established consensus on the actual end effect of outsourcing. This is especially locally, whereby in Kenya it remains common knowledge that BPO is widely practiced in both public and private institutions. There is scanty information pointing to the manner in which outsourcing is approached, including its contribution to these institutions. It is these gaps in knowledge that drove to establishing the relationship between BPO and firm performance. Further, focusing on the Kenyan State corporations was driven by the role BPO is envisaged to play in the economic development of Kenya. This has been identified in the Vision 2030 as one of the six key sectors in the economic pillar. In doing this, the study brought in other factors; namely strategy and firm characteristics envisaged to have influence on the manner in which the corporations handle BPO. Hence are crucial determinants of the success or failure of the BPO initiative. The study further drew hypotheses to test the nature of the relationship between BPO and firm performance, as well as how this relationship is affected by each of these influential factors. Finally the hypotheses tested the combined effect of BPO, strategy and firm characteristics on the performance of the Kenyan State firms. This research was a census study focusing on all the 144 State corporations in existence by December 2012. The study managed to get participants 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 in the study. 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 department. The collected data was prepared and analyzed using SPSS. 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, to establish the cause, effect, degree and direction of the relationship between the variables. The findings of this study confirmed that all the Kenyan State corporations were involved in outsourcing, and that BPO had a positive contribution to the firms' overall performance. However, BPO was found to have insignificant contribution to the corporations' profitability. Of all the factors making up strategy and firm characteristics and envisaged to be of influence to the relationship between BPO and firm performance, the type of strategy adopted, and the management competence were found to have the biggest impact on BPO performance and consequently performance improvement. 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 adaptive to changing market trends and those who will invest in skilled human capital to adequately manage BPO and other processes. Organization structure, the Board of Directors and the age and size of the corporations were found to be of little or no impact on the success of BPO. The study’s limitations were the population of the study, and the use of only two factors to test the influence of the relationship between BPO and firm performance. The research thus recommends future studies to widen data coverage. This can be done by involving mainstream government departments, and BPO service providers. Future studies may also consider testing the influence of other factors, especially external factors, which may influence this relationship.