BUSINESS PROCESS OUTSOURCING AND ITS EFFECT ON FINANCIAL PERFORMANCE -A CASE OF KENYA POWER AND LIGHTING COMPANY

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BUSINESS PROCESS OUTSOURCING AND ITS EFFECT ON FINANCIAL PERFORMANCE -A CASE OF KENYA POWER AND LIGHTING COMPANY

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ABSTRACT

This research was aimed at finding out how Kenya Power can improve financial performance through Business Process Outsourcing. The problem being investigated was why many organizations are not obtaining the financial benefits which are the major driver of outsourcing. The objectives of the study were; to determine how selection of BPO opportunities influence financial performance of Kenya Power and to establish how cost management in BPO affect financial performance of Kenya Power.

The target population was employees at Kenya power Head Quarters. The sample was 84 employees from Business Strategy department, Supply Chain department, Finance department and Customer Service departments at KPLC. A stratified random sampling technique was used for respondents in the target population. A random sample was drawn from each stratum. This sampling method ensures that each stratum is represented proportionally in the sample. The questionnaire was the principal tool in collecting primary data. The questionnaire contained structured, semi structured and unstructured questions. The study targeted 84 respondents and managed to obtain responses from 78 of them thus representing 93% response rate. The data was analysed using IBM SPSS Statistics Package version 20. To ensure reliability of the instrument Cronbach's Alpha was used. The study findings indicated that there is a significant positive relationship between the BPO aspects namely: Selection of BPO opportunities and cost management in BPO. The findings also indicated that selection of BPO opportunities and cost management of BPO respectively influenced the financial performance of KPLC.

Key Words: *Business Process, Outsourcing, Financial Performance*

INTRODUCTION

Outsourcing may be defined as a management strategy by which major non-core functions are transferred to specialist, efficient, external providers (Lysons, 2006). According to Essinger (2000), outsourcing is one of the fastest growing and arguably the most important areas of business activity. Outsourcing has enjoyed rapidly rising popularity in recent years, increasingly used in a broad range of industries and encompassing a lengthening list of services such as manufacturing and logistics (Greene, 2005). Currently, it is achieving gains in strategic importance as well. No longer just a cost reduction measure, outsourcing is a strategic decision for a growing number of companies. While many firms in the past would contract out back-office functions to realize savings or to simply eliminate a problem, today the approach is radically different. Now, executives in high-performance businesses turn to outsourcing to quickly attain improvements across departments and business processes (Katrina, 2003).

Business Process Outsourcing is the delegation of one or more IT-intensive business processes to an external provider that in turn owns administers and manages the selected process based on defined and measurable performance criteria (Tripathi, 2010). According to Deloitte (2012), Information Technology, Finance and Human Resources continue to lead other business processes in outsourcing, though all business processes are expected to see increases in the use of outsourcing and off shoring in the near future. Most organisations view outsourcing as a standard practice within their company and not a fad or trend (Deloitte, 2012). BPO is a business model for how to source multiple IT-enabled business services and then integrate them into a whole that is greater than the sum of the parts (Accenture, 2009). Five BPO international hot spots have emerged, although firms from many other countries specialize in various business processes and exporting services: India specializes in Engineering and technical, China in Manufacturing and technical, Mexico in Manufacturing, United States in Analysis and creativity and Philippines in Administrative work.

Problem Statement

Outsourcing is a purchasing trend which came along with a significant driver of cost reduction (Dhar & Bindu, 2006). The outsourcing trend continues to grow as businesses worldwide stretch to find solutions to increase revenue, reduce expenses and enhance profitability (Dibbern & Goles, 2004). Despite outsourcing emerging as a viable strategy to improve business performance, a large number of companies are not enjoying financial benefits. 40% of outsourcing initiatives are sieving less than projected and in some cases, costing more in both direct and administrative costs (Towers Perrin group, 2007). Furthermore, 50% of the time outsourcing is more costly (Gartner, 2008).

According to Atkinson (2006), outsourcing is not the right strategy for everyone. Kenya Power's commitment being provision of high quality customer service efficiently, these statistics pose several questions. This is observed by the increased complaints on both the efficiency and effectiveness of Kenya Power. KPLC has been experiencing billing challenges that have hindered the smooth running of the prepaid metering system to some of its customers. Customers are also complaining of failure to receive tokens even after paying for them. Kenya Power's financial statements are over the years indicating a significant rise in costs and lower profits (Juma, 2013). Despite the business viability of the outsourcing strategy, KPLC is yet to enjoy increase in revenue, reduction in expenses, enhanced profitability and reduction in both direct and administrative costs.

This study was therefore aimed at establishing whether these challenges can be attributed to how planning and execution of the outsourcing initiative is undertaken in KPLC and how KPLC can improve financial gains from Business Process Outsourcing.

Objectives of the Study

The general objective of the study was to assess how KPLC can improve financial performance from Business Process Outsourcing. This are supported by the specific objectives which are to determine how selection of BPO opportunities and cost management in BPO affect financial performance of Kenya Power.

Research Questions

The following were the research questions:

1. To what extent does selection of BPO opportunities influence financial performance of Kenya Power?
2. How does cost management in BPO affect financial performance of Kenya Power?

Scope of the Study

The study was undertaken at KPLC headquarters, located at Stima Plaza, Kolobot Road in Parklands, Nairobi. This is because KPLC undertakes centralized procurement at its headquarters. Moreover, KPLC is a large organization that has outsourced over fifty business operations. The study focused on employees based at Kenya Power Headquarters. The time period for data collection was two weeks between 07/08/2014 and 21/08/2014, the period within which the researcher administered and collected filled questionnaires from the respondents.

LITERATURE REVIEW

Theoretical Framework

According to Pedersen and Perunović (2007), the studying of the outsourcing phenomenon has been grounded in many theories. There are various theoretical justifications for outsourcing. This research will cover Transaction Cost Theory (TCT) (Ang & Straub, 1998), knowledge-based view theory (Gerhart, 2000) and Concept of core competences theory (Arnold, 2000).

a) Transactional Cost Theory

A goal of the organizations is to reduce cost and to achieve cost efficiency (Aubert et al., 2001). Keeping that in mind, Williamson developed the Transaction Cost Theory (TCT). Transaction costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers (Williamson, 1998). As per Williamson, there are two types of costs involved for any service–production costs, and coordination cost. Production cost is the cost incurred to make the product or to provide the service. It includes the cost of labor, material, and capital. Coordination costs include monitoring, controlling and managing the work internally. If the job is handed over to external vendor, the coordination costs are called transaction costs. Several academic papers have indicated recently that the study of outsourcing should consider the TCE theories (Mayer; Salomon, 2006; Holcomb; Hitt, 2007, Verwaal; Commandeur; Verbeke, 2009).

b) Knowledge-Based View Theory

Knowledge-based resources include all the intellectual abilities and knowledge possessed by employees, as well as their capacity to learn and acquire more knowledge. Thus, knowledge-based resources include what employees have mastered as well as their potential for adapting and acquiring new information (Gerhart, 2000). This approach considers firms as bodies that generate, integrate and distribute knowledge (Narasimha, 2000; Miller 2002). The ability to create value is not based as much upon physical or financial resources as on a set of intangible knowledge based capabilities.

According to the KBV competitive success is governed by the capability of organisations to develop new knowledge-based assets that create core competencies (Pemberton & Stonehouse, 2000). The knowledge-based view provides insight in understanding how individuals co-operate to produce goods and services. The knowledge-based view distinguishes two ways how knowledge is shared among partners. They are knowledge generation and knowledge application. The knowledge-based view has been utilized in the outsourcing research to prove that knowledge sharing in the Managing relationship phase is positively related to the success of an outsourcing arrangement.

Conceptual Framework

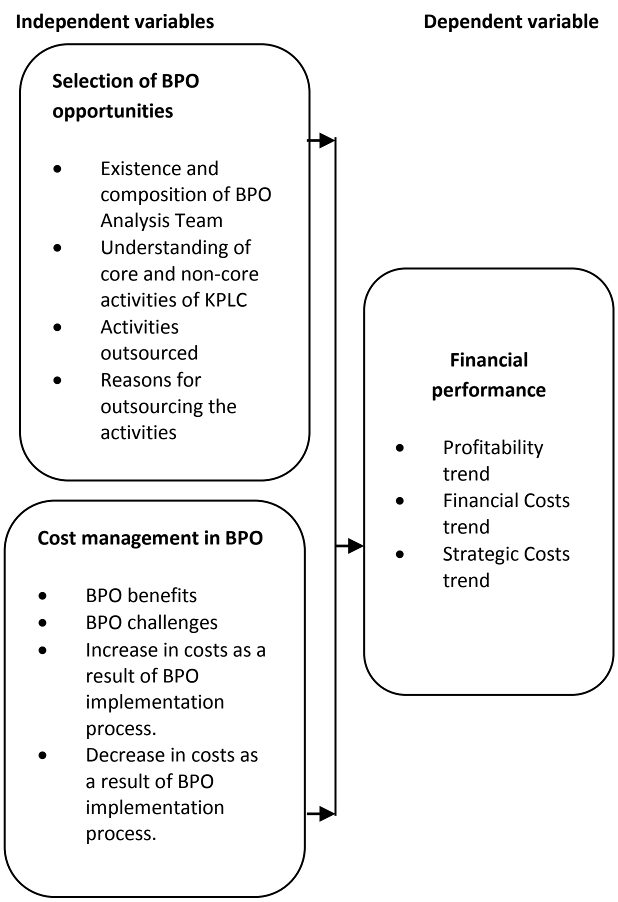

Figure 1 Conceptual Framework

a) Selection of BPO Opportunities

BPO is not right for every company, nor is it right for every process in a given company. But its promise compels managers to seek out BPO opportunities and exploit them where possible (Duening & Click, 2005). Analyzing the BPO opportunity means identifying core competencies and determining the most effective way to support high performance in those activities. An increasingly effective way to support core competencies is by outsourcing noncore functions to third-party providers. According to Duening & Click (2005), by applying a six-step process to analyze and select BPO opportunities, organizations can better link BPO decision making to overall organizational strategy.

Establish a BPO Analysis Team

The multidisciplinary nature of a BPO initiative requires a multidisciplinary team to adequately assess the opportunity for the organization—the BPO Analysis Team (BAT). The BAT should be chartered by the organization's top executive team, which will also serve as the Steering Team for the BPO project (Saxena & Bharadwaj, 2007). Preparation and training of the BAT is imperative to its success. Team members may be unaware of the potential benefits of BPO, so a crash course in BPO and its implications may be necessary. In addition to educating the BAT about BPO, the team must be knowledgeable about the organization's overall strategic intent. In addition, the formal charter offered to the BAT should include a clear statement of its objectives: to identify core and noncore business processes, to analyze which noncore processes may be good candidates for BPO and to recommend whether to undertake a BPO.

Conduct a Current-State Analysis

The first performance task for the BAT to conduct is a current-state analysis, which refers to the exercise of examining, mapping, and categorizing internal business processes. Typically, this involves rolling up the sleeves and mapping business processes step by step on a white board or other erasable medium. A review of current operations and a baseline analysis across processes should be performed to ensure current performance and costs are understood (Ernest and Young, 2011). The goal is to develop an understanding of how work flows within the organization. If done correctly, a current-state analysis can unveil hidden bottlenecks and expose sloppy procedures that have become entrenched within the organization.

Identify Core and Noncore Activities

According to Moore (2002), core competence consists of those capabilities that permit the firm to make the best response to market opportunities. Any behavior that can raise your stock price is core, everything else is context. Once the organization's core competence has been identified, those processes that are noncore should also be identified and classified. Some processes will be more crucial in their support of the core competence than others.

Identify BPO Opportunities

In selecting which business processes to outsource, factors to be considered include: Goals of the outsourcing initiative, Ability to recruit a motivated internal project sponsor, business case supporting the initiative, timing of the project, culture of the unit slated for outsourcing, amount of work required to implement the outsourcing initiative, expectations of senior management and risk to business (Duening & Click, 2005). The decision process involved in selecting which functions to outsource must necessarily be collaborative. Because BPO is a strategic choice for an organization, it must be determined if and how BPO fits into the overall strategy. This can be done only through broad, collaborative discussions at all levels and across all functional and process boundaries. According to Accenture (2011), Companies that have taken a holistic approach to assessing business process outsourcing feasibility have found significant and previously unidentified benefit potential. In addition, these assessments mitigate the risk of entering into a poorly designed BPO arrangement that results in increased burden to the organization or failure.

Model the BPO project

BPO is similar to any other strategic business initiative in that it is imperative to establish performance metrics before implementation (Keenan, 2013). Some of BPO metrics will be quantitative (hard) and others will be qualitative (soft). Hard data include such things as project costs, time involved, and opportunity costs. Soft data include employee displacement, effects on morale, and impact on community goodwill. To establish appropriate performance metrics for a BPO initiative, it is critical to first establish project objectives. The BAT's charter charges it with defining the objectives of the initiative. Objectives should be identified both for the BPO initiative and for the transition process. According to Duening & Click (2005), at minimum, project objectives should include: Timing, Costs, Risk mitigation and Deliverables.

The timing of key events metrics will help identify whether the BPO initiative is on track during implementation. Event timing will include identifying realistic milestones for both the organization and its outsourcing partner. The metrics established by the BAT should include performance targets that are to be maintained once the BPO implementation is completed. These will establish the baseline standards that should be used in selecting a BPO partner.

There will be costs involved with the BPO initiative, both cash and resource costs. The BAT should model the costs involved with both the BPO transition and with its ongoing maintenance (Aubert et al., 2001). Implementation costs should be carefully detailed to include consulting or professional support required during the BPO analysis and implementation, personnel time, and opportunity costs involved with tying up key people during the transition. The organization should also monitor noncash costs involved in the BPO rollout, including resource costs, downtime costs, and risk mitigation costs.

Mitigating risks is a primary concern for a BPO initiative (SAP, 2008). Outsourcing necessarily entails ceding control of formerly internal processes, a prospect that is frightening to managers on many levels. Risks associated with outsourcing range from concerns over data security to a loss of organizational learning. Each specific risk can be mitigated, but there is no way to remove all risk from a BPO project. Thus, organizations need to weigh the risk of undertaking the project against the risk of not doing it. Risk mitigation tactics that should be modeled include provisions for what to do if the BPO provider fails outright. Having such contingencies in place will add to the complexity of the overall BPO project.

Finally, the BAT should also develop clear expectations for the ultimate results or deliverables to be achieved through a BPO initiative (Accenture, 2011). Many BPO projects are initiated with a pilot effort before a full rollout. The expectations for the pilot will likely be less ambitious than those for the full implementation, but they should be rigorous enough to test what is likely to occur when the switch is finally thrown. Results that fall short of expectations should provide insight into where the problems lie and how to fix them. They should also be used in a Go/No-Go decision strategy. One of the few tendencies in social systems that can be predicted with accuracy is the phenomenon known as escalation of commitment or the sunk-cost effect.

Develop and Present the Business Case

Once the BPO initiative has been modeled for timing, costs, risk mitigation, and deliverables, the BAT next must build a business case for those processes that could benefit from outsourcing (Duening & Click, 2005). This will include direct recommendations on which, if any, business processes within the organization are suitable for outsourcing. A business case is a written document that presents the methodology and findings of the BAT.

The methodology section of the business case should include a review of the process the BAT used to reach its conclusions, including: The people who were consulted during the analysis phase, The research documents reviewed, books read and conferences attended, An overview of analytic tools applied to identify and select opportunities, Copies of any research instruments used to gather original data and Minutes of the BAT team meetings.

It is imperative to be concise in developing a business case, but the methodology should be clear about the thoroughness of the BAT’s investigation.

b) Cost Management in BPO

Cost reduction is still the main driver behind most BPO decisions. Closely examining the cost structure of a BPO engagement first will help better assess the achievable cost savings and understand how technology drives savings (SAP, 2009). According to Olaysrud (2003), Business Process Outsourcing BPO has been hyped as one of the next big things in IT, but research firms warn that cost savings garnered through such deals may not be all they're made out to be. According to Forrester Research firms looking to outsource core business processes like human resources, and finance and administration to gain cost savings will not find a single vendor that can manage such complex offerings (Forrester, 2003).

Outsourcing delivers double-digit cost savings and improves overall operating efficiencies. According to Aberdeen group (2004), on average, companies could reduce prices paid for goods and services by 18%, improve contract compliance by 60%, halve sourcing and transaction cycles, reduce administration and automation costs by over 25% and improve rebate and volume discount capture by up to 20%. Identifying and assessing the costs related to a BPO initiative are essential to the outsourcing decision and can help organizations budget appropriately. According to Duening & Click (2005), there are two primary areas of concern which include financial costs and strategic costs. Financial costs are hard costs associated with activities that must be undertaken to assess, launch, and maintain a BPO project. Strategic costs are soft costs that are difficult to quantify but can profoundly affect the firm's ability to compete.

The total costs associated with BPO cannot be forecast precisely. However, organizations seeking to undertake BPO can lessen the potential for expensive surprises by using total cost management (TCM). TCM is the effective application of professional and technical expertise to plan and control resources, costs, profitability and risk (Hollman, 2012). TCM involves the overt or direct costs that can be linked to the BPO project, hidden costs that are quantifiable but less easy to identify, and opportunity costs that are non quantifiable but capable of being identified and estimated.

The financial costs associated with BPO are ongoing, as long as the project is active. Each project phase has predictable costs that can be forecast, budgeted, monitored, and mitigated. Additionally, each BPO initiative has a variety of less obvious yet insidious hidden costs. Managers should include these in their analyses because many initiatives accumulate unanticipated costs that can threaten projects and careers.

The first direct cost to consider in the BPO analysis phase is associated with the internal staff that will be enlisted to conduct the assessment. Quigney (2002) emphasizes that a thorough understanding of your company's labour usage and its relation to your core business will help you define your requirements when outsourcing the labour procurement process. Organizing a BAT means employees from diverse units will take time away from their normal duties to serve on the team. The time spent away from these duties is a direct cost. Costs associated with removing individuals from their regular jobs can be calculated in several ways. One is to count the hours spent on the BPO analysis for each BAT member and multiply this figure by the hourly wage for that individual. The result of this calculation is then attributed to the BPO project. This approach is often referred to as transfer pricing.

Another direct cost associated with the BPO analysis phase involves third-party professional support that may be required to assist the team (Quigney 2002). BPO consultants, market research specialists, and change-management consultants are just some of the outside professionals the BAT may want to consider utilizing. This cost can be estimated at the beginning of the project using several indicators, including Prior BPO knowledge among BAT members and the organization as a whole, Organizational history with BPO, reengineering, or other transformational change programs and Top management support for BPO in the organization (Duening & Click, 2005).

Hidden costs associated with the BPO analysis phase include those that arise from a lack of organizational capability to analyze the BPO opportunity. Companies get some savings by reducing internal costs associated with managing indirect spend activity (Accenture, 2009). Reliance on third-party consultants to assist with the BPO analysis is common and in many cases recommended. However, overreliance on consultants can lead to additional project costs throughout the implementation, transition, and maintenance phases of the BPO initiative. To avoid these hidden costs, BAT members and others should learn as much as possible from the third-party professionals. Failure to concentrate on organizational learning and on building a knowledge base for managing BPO projects will inevitably lead to additional costs. Operational savings can be realized by improving process performance and optimizing staffing profiles (Accenture, 2009).

Empirical Review

The IBM Research team used a rigorous statistical approach to analyze the financials of 244 publicly traded companies that entered into a large-scale outsourcing program between 2001 and 2006 (IBM, 2010). That analysis revealed a correlation between outsourcing and significant improvement in business performance. The results of the IBM Research study demonstrated that outsourcing clients consistently outperform their peers on key financial metrics, including Selling, General and Administrative (SG&A) expenses, Earnings Before Taxes (EBT), Operating Income and Return on Assets (ROA). The results also demonstrated that companies that choose to outsource experience significant improvements in their financial performance compared to their performance levels prior to outsourcing.

According to the survey, companies that outsourced were able to reduce the rate of their annual SG&A growth by 3.5 points in the first year of the engagement and also increase the rate of their annual earnings growth by 4.5 points in the second year of the engagement. Moreover, One year following the start of the engagement, companies that outsourced had 2.9 points lower SG&A growth than their sector peers. Two years following the start of the engagement, companies that outsourced had 4.3 points higher earnings growth than their sector peers, 3.2 points higher operating income growth than their sector peers and outsourcing clients grew their ROA 0.13 points better than their sector peers.

Research Gap

Firms are operating in a dynamic environment. The demands of the stakeholders are advanced and are straining the financial position of organizations. Management is developing strategies to improve financial position. Outsourcing is one of these strategies which is attractive to management because it improves some dimensions of organizational performance including lowering costs, improving productivity, higher quality, higher customer satisfaction, marketing time, and focus on core areas (Dhar & Bindu, 2006).

KPLC adopted outsourcing with an aim of financial improvement. According to Atkinson (2006), outsourcing is not the right strategy for everyone. Previous literature does not explain why this situation arises. This research will contribute to the body of knowledge of execution of Business Process Outsourcing for improved financial gains. The findings will provide an understanding as to why financial gains cannot accrue if due process is not followed in planning and execution of the outsourcing initiative. This study will establish whether or not KPLC is accruing financial gains from business Process Outsourcing. In addition, the research will reveal the efficiency and effectiveness of the planning and the execution of BPO in Kenya.

RESEARCH METHODOLOGY

Research Design

Descriptive research design was adopted. Descriptive research is research whose purpose is to produce an accurate representation of persons, events or situations (Saunders et al; 2012). According to Kothari (2009), a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variable of interest in a situation. The advantage of this design is that it helps to have factual and minimized biased judgments and opinions. This involved a survey into the variables mentioned in the conceptual framework. A case study approach was used to enable the researcher get deeper information on the selected sample. According to Yin (2003), a case study is a detailed study of a particular situation used to narrow down a very broad field of research into one easily researchable topic.

Target Population

Population refers to a complete set of elements that possess some common characteristic defined by the sampling criteria established by the researcher The target population is the population to which a researcher wants to generalize the result of the study (Mugenda and Mugenda, 2003; Perry, 2005). In this research, the survey was undertaken within KPLC Head Quarters-Stima Plaza. KPLC has a total population of 1,085 employees at its Headquarters. Business Process Outsourcing is a strategic decision which directly affects Business Strategy department, Supply Chain department, Finance department and Customer Service departments at KPLC. These departments have a total population of 506 employees as indicated in table 3.1.

Table 1. Target Population

Departments	Total Population
Business Strategy	69
Finance	139
Supply Chain	60
Customer Service	238
Total	**506**

Source: KPLC Human Resource Database-August 2014

Sample design

A stratified random sampling technique was used for all respondents in the target population. The sample frame was divided into discrete departments within the different departments at Kenya Power. A random sample was drawn from each stratum. This sampling method ensures that each stratum is represented proportionally in the sample. the sample consisted of 84 Employees

Table 2: Sample Size

Departments	Total Population	Sample size
Business Strategy	69	12
Finance	139	23
Supply Chain	60	10
Customer Service	238	40
Total	**506**	**84**

Data collection instruments

The questionnaire was the principal tool in collecting primary data. The questionnaire contained structured, semi structured and open-ended questions. Semi-structured questions elicit adequate qualitative and quantitative data. The questionnaire was structured into two broad sections. The first section captured the general information of the respondent while the second section sought to capture data on each of the independent variables outlined in the conceptual framework. The questionnaires were self administered to the respondents. Secondary data was obtained from annual financial reports of KPLC.

Data collection procedures

According to Chandran (2004), data collection is the gathering of empirical evidence in order to gain new insights about a situation and answer questions that have prompted the undertaking of the research. Cross sectional studies were undertaken. Piloting of the questionnaire was done and after the instrument was ascertained for reliability, the questionnaire was self-administered to the respondents of KPLC during office hours. To ensure high response rates, the researcher interpreted each of the sections of the questionnaires to the respondents to ensure that they fully understood the questions before answering.

Data processing and analysis

The structured questions generated quantitative data while the unstructured questions generated qualitative data. Data analysis was undertaken using IBM SPSS Statistics version 20. Questionnaires were coded for the purpose of transcribing the findings into the computer. The codes were then entered into a computer spreadsheet. The data from the study was analyzed using both qualitative and quantitative techniques. The analysis was aimed at generating descriptive statistics. Descriptive statistics include the use of percentages, computation of means and standard deviation. Percentages were used to determine sample distribution across various variables while mean scores of the variables were used to determine the extent to which BPO affects the financial performance of the Kenya Power.

The research findings were presented in form of tables and graphs. ANOVA was applied to analyze the data that was obtained from the open ended questions. The following multiple regression model was used to find out the extent to which BPO affects the financial performance of the Kenya Power. This method is valuable for quantifying the impact of various simultaneous influences upon a single dependent variable.

$Y = a + \beta_1X_1 + \beta_2X_2 + £$

Where

a is a constant

β is a Regression coefficient

Y= Financial Performance

X_1= Selection of BPO opportunities

X_2= Cost management in BPO

DATA ANALYSIS AND INTERPRETATION

Response Rate

The study targeted 84 respondents and managed to obtain responses from 78 of them thus representing 93% response rate. This response rate is considered satisfactory to make conclusions for the study.

Reliability Analysis

In this study to ensure the reliability of the instrument Cronbach's Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that selection of BPO opportunities had a coefficient of 0.747 and cost management in BPO had a coefficient of 0.751. All the constructs depicted that the value of Cronbach's Alpha were above the suggested value of 0.5 thus the study was reliable (Malhotra, 2002). On the basis of reliability test it was supposed that the scales used in this study were reliable to capture the constructs as shown in the Table 3.

Table 3: Reliability Analysis

Determinants of Financial Performance	Cronbach's Alpha	Comments
Selection of BPO opportunities	.747	Accepted
Cost management in BPO	.751	Accepted

Background Information

The study sought to establish the demographic data of the respondents. The researcher began by a general analysis on the demographic data got from the respondents which included; gender and period served in the organization. The researcher also sought to find out the departments the respondents were attached to and the reasons why KPLC adopted Business Process Outsourcing.

Gender of Respondent

Respondents were required to indicate their gender. The findings revealed that majority (59%) of the respondents were male and the remaining 41% of them were female. The findings therefore reveal that all the respondents were proportionally represented.

Period Served in Organization

Respondents were further required to indicate the length of time they had served in their organization. From the descriptive statistics 46.2% of the respondents indicated that they had served their organization for a period of between 6-10 years. 30.8% of them indicated that they had served their organization for a period of between 2-5 years while those who had served for a period of more than 10 years were 16.6%. The remaining 6.4% of the respondents had served KPLC for a period of less than 2 years. The findings therefore reveal that majority of the respondents in this study had served their organization for a period long enough to enable them comment on the aspects under study.

Departments of the respondents

The respondents were required to indicate the department they work in. The findings revealed that 35.5%, which was the majority worked in the customer services department, while 29% of the respondents were from the finance department. Supply chain management and Business strategy were 21.5% and 14% respectively. The findings therefore reveal that all departments were proportionately represented in the survey.

Reasons for adopting Business Process Outsourcing

The respondents were required to indicate the reasons for adopting Business Process Outsourcing at KPLC. The findings revealed that 46.2%, which was the majority indicated that KPLC adopted Business Process Outsourcing to reduce costs, while 32.3% of the respondents indicated that the reason behind outsourcing was to enhance quality customer services. 18.3% of the respondents indicated that KPLC adopted Business Process Outsourcing to reduce work force and only 3.2% indicated that the reason behind outsourcing at KPLC was to reduce workforce. The findings therefore reveal that Business Process Outsourcing was adopted in KPLC aimed at cost reduction and enhanced quality customer services.

Study Variables

a) Selection of BPO Opportunities

The study sought to investigate the influence of BPO selection opportunities on the financial performance of KPLC. Specifically, the study focused on existence of BPO analysis team, constitution of the team, understanding of core and non-core activities of KPLC by management, outsourced activities and reasons for outsourcing activities.

Existence of BPO Analysis Team

Respondents were further required to indicate whether there was a team that undertook BPO opportunities. 87% of the respondents indicated that such a team was in place while the remaining 13% of them indicated otherwise. The respondents further indicated that the BPO opportunities analysis team comprised of management representatives, user departmental heads, supply chain manager and external consultant. The findings revealed that the BPO Analysis Team was constituted with departmental representation.

i. Understanding of Core and Non-core Activities

The study sought to establish whether there was a clear understanding between core and non-core activities of KPLC by management. The findings revealed that 86% of the respondents were of the opinion that management clearly understood core and non-core activities of KPLC. The remaining 14% of the respondents were of the contrary opinion as shown in Figure 3.

ii. Core activities of KPLC

The respondents were required to indicate the core activities of KPLC. The findings revealed that 42.2%, which was the majority indicated that the core activities of KPLC is Network management (distribution and transmission), while 38.8% of the respondents indicated that the core activity of KPLC is power sales/retailing of power. 12.3% of the respondents indicated that the core activity of KPLC is energy purchase and only 6.7% indicated that the core activity of KPLC is infrastructure development and maintenance. The findings therefore reveal that the core activities of KPLC are Network management (distribution and transmission) and power sales/retailing of power.

iii. Activities Outsourced

Respondents were further required to indicate the activities which KPLC outsourced. 65% of the respondents were categorical that KPLC outsourced both core and non-core activities. 26% of them were of the opinion that KPLC only outsourced non-core activities. Only 9% of the respondents indicated that KPLC outsourced core activities.

iv. Reasons for Outsourcing Activities

Respondents were required to indicate their level of agreement to the reasons as to why KPLC undertake outsourcing. Items were measured on a five point Likert-Type scale ranging from 1 being "Strongly agree" to 5 being "Strongly disagree". Means of between 2.0587- 4.6265 and standard deviations of between 0.04259- 0.95217 were registered. The study findings therefore revealed that majority of the respondents strongly agreed that to concentrate on core activities was the reason KPLC outsourced its activities (4.6265). They further agreed that to manage costs (4.3750), to enhance timely completion of projects (4.3815) and to tap into available market expertise (4.1150) were reasons as to why KPLC outsourced its activities. However, it was clear from the research findings that to reduce/spread risk (2.0587) and to avoid work overload (2. 4435) was not a major reason for outsourcing KPLC's activities. The findings are as presented in Table 4.

Table 4: Descriptive Statistics on reasons for outsourcing activities

Aspect	Mean	Std. Deviation
To concentrate on core activities	4.6265	.53215
To reduce/spread risk	2.0587	.18219
To avoid work overload	2.4435	.45217
To enhance timely completion of projects	4.3815	.04259
To tap into available market expertise	4.1150	.95217
To manage costs	4.4640	.94831
To enhance quality of service delivery	3.9820	.12787

b) Cost Management in Business Process Outsourcing

The study sought to establish how cost management in BPO affected the financial performance of KPLC. Specifically, the study focused on benefits of BPO, challenges as a result of BPO and increase and decrease in costs as a result of BPO implementation process;

i. Business Process Outsourcing Benefits

Respondents were further required to indicate whether there were any benefits that had resulted from BPO. 59% of the respondents indicated that BPO implementation in KPLC had benefits while the remaining 41% of the respondents indicated otherwise.

Respondents were further required to indicate the extent to which they attributed benefits to BPO. Items were measured on a five point Likert-Type scale ranging from 1 being "To a very great extent" to 5 being "Not at all". Means of between 2.3214-4.4894 and standard deviations of between 0.12041- 0.84259 were registered. The study findings therefore revealed that majority of the respondents agreed that the major benefit of BPO is Accelerated new customer connectivity (4.4894). They further agreed that enhanced revenue collection output (4.4435), cost containment (4.4042), transfer of risks (4.0001), rapid growth of customer base (4.1913) and business expansion (3.8298) were benefits that accrued from BPO implementation. However, it was clear from the research findings that customer delight (2.9149) and staff specialization (2.3214) were not major benefits accruing from BPO. The findings are as presented in Table 5.

Table 5: Descriptive Statistics on major benefits as a result of BPO implementation

Aspect	Mean	Std. Deviation
Accelerated new customer connectivity	4.4894	.42315
Customer delight	2.9149	.12041
Enhanced revenue collection output	4.4435	.83217
Cost containment	4.4042	.84259
Transfer of risks	4.0001	.68632
Staff specialization	2.3214	.75831
Rapid growth of customer base	4.1913	.12787
Business expansion	3.8298	.65787

ii. Challenges as a result of BPO

The research sought to establish whether they had experienced any challenges as a result of Business Process Outsourcing implementation at KPLC. 56% of the respondents indicated that they had experienced challenges as a result of BPO implementation at KPLC. The remaining 44% of them indicated otherwise.

Respondents were further required to indicate the extent to which they attributed challenges to BPO. Items were measured on a five point Likert-Type scale ranging from 1 being "To a very great extent" to 5 being "Not at all". Findings therefore revealed that BPO had come along with challenges. Means of between 3.7021- 4.3830 and standard deviations of between 0.09539- .85239 were registered. The study findings therefore revealed that majority of the respondents agreed that the major challenge of BPO is Loss of control of processes (4.3830). They further agreed that increased costs (4.1065), compromised standards (4.1064), slow benefit realization due to staggered implementation (3.8296), industrial relations challenge due to staff redundancy (3.7025), customer dissatisfaction (3.8298), staff challenges (3.7021) and marred company image (3.7875) were challenges that resulted from BPO implementation. The findings are as presented in Table 6.

iii. Table 6: Descriptive Statistics on challenges as a result of BPO implementation

Aspect	Mean	Std. Deviation
Loss of control of processes	4.3830	.78923
Increased costs	4.1065	.19092
Compromised standards	4.1064	.09539
Slow benefit realization due to staggered implementation	3.8296	.85239
Industrial relations challenge due to staff redundancy	3.7025	.58332
Customer dissatisfaction	3.8298	.63231
Staff challenges	3.7021	.15677
Marred company image	3.7875	.65287

iv. Increase in Costs as a result of BPO Implementation

Respondents were required to indicate the extent to which they attributed the increase in costs to BPO implementation process. Items were measured on a five point Likert-Type scale ranging from 1 being “To a very great extent” to 5 being “Not at all”. Means of between 2.0789- 4.4375 and standard deviations of between 0.03497- 0.95239 were registered. The study findings therefore revealed that majority of the respondents agreed that the increased operational costs were attributed to third party professional support acquired to assist the BPO analysis team to a great extent (4.4375). They further agreed that the decision to use the vendors’ systems was also costly to a great extent (4.3750). However, it was clear from the research findings that unclear identification of BPO costs was not a major contributing factor to increased operational costs (2.0789). The findings are as presented in Table 7.

Table 7: Descriptive Statistics on Cost Increase and BPO Implementation

Aspect	Mean	Std. Deviation
No clear distinction between core and non-core activities	3.3947	.15172
Unclear identification of BPO costs	2.0789	.17131
Unclear tendering process	3.4359	.44723
The decision to use the vendor's system	4.3750	.95239
The decision not to use the vendor’s system	4.0500	.93233
Compatibility between vendor and the organization’s systems	4.1750	.03497
Understanding new work flows, work procedures and work responsibilities	3.9250	.11832
Labour costs associated with removing employees from their regular jobs to take part in selecting BPO opportunities	4.2250	.69752
Third party professional support acquired to assist the BPO analysis team	4.4375	.51235

v. Decrease in Costs as a result of BPO Implementation

Respondents were required to indicate the extent to which they attributed the decrease in costs to BPO implementation process. Items were measured on a five point Likert-Type scale ranging from 1 being “To a very great extent” to 5 being “Not at all”. Means of between 3.5897 - 4.7250 and standard deviations of between 0.03497- 0.95239 were registered. The study findings therefore revealed that majority of the respondents agreed that the decreased operational costs were attributed to clear distinction between core and non-core activities to a great extent (4.4375).

They further agreed that labour costs associated with removing employees from their regular jobs to take part in selecting BPO opportunities also led to reduced operational costs to a great extent (4.3250). However, it was clear from the research findings that third party professional support acquired to assist the BPO analysis team did not significantly decrease the operational costs. The findings are as presented in Table 8.

Table 8: Descriptive Statistics on Cost decrease and BPO Implementation

Aspect	Mean	Std. Deviation
Clear distinction between core and non-core activities	4.3750	.95239
Unclear identification of BPO costs	4.0500	.93233
Unclear tendering process	4.1750	.03497
The decision to use the vendor's system	3.9250	.11832
The decision not to use the vendor’s system	4.2250	.69752
Compatibility between vendor and the organization’s systems	4.7250	.74789
Understanding new work flows, work procedures and work responsibilities	4.2250	.14326

Labour costs associated with removing employees from their regular jobs to take part in selecting BPO opportunities	4.3250	.97106
Third party professional support acquired to assist the BPO analysis team	3.5897	.54728

c) KPLC Financial Performance

KPLC annual reports and financial statements were obtained for five years from 2009-2013. Financial performance was measured in terms of profitability. The findings revealed that KPLC registered an upward trend in profits in the years 2009-2012. However there was a drop in profitability in the year 2013 as shown in Table 9.

Table 9: KPLC Profitability

Year	Profit (Ksh. "000")
2009	3,225,094
2010	3,716,370
2011	4,219,566
2012	4,617,116
2013	4,352,116
Average	**4,026,052**

The researcher also sought to investigate the relationship between operating income and operating costs of KPLC. Cost-income ratio was calculated as illustrated in Table 10.

Table 10: KPLC Cost-Income ratio

YEAR	OPERATING INCOME	TOTAL OPERATING COSTS	COST-INCOME RATIO
2013	8,793,453	21,130,634	0.416147
2012	7,808,520	19,679,846	0.396777
2011	7,082,447	17,694,951	0.400252
2010	5,949,462	14,977,145	0.397236
2009	5,674,612	13,570,397	0.418161
2008	2,738,309	38,363,024	0.071379
2007	2,648,691	36,062,567	0.073447
2006	2,497,983	32,749,667	0.076275
2005	1,979,276	27,171,579	0.072844

Regression Analysis

The multiple linear regression analysis models the relationship between the dependent variable which was financial performance of KPLC and the independent variable which was Business Process Outsourcing as indicated by selection of BPO opportunities and cost management in BPO. The coefficient of determination (R^2) and correlation coefficient (r) shows the degree of association between financial performance and BPO aspects under study.

The research findings indicated that there was a very strong positive relationship (r= 0.852) between the variables. The study also revealed that 72.7% of financial performance of KPLC could be explained by the BPO aspects under study. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain financial performance at KPLC. The findings are as shown in the Tables 11.

Table 11: Model Summary

r	R^2
.852	.727

Table 12 shows the results of ANOVA test which revealed that the combined independent variables have significant effect on financial performance. This can be explained by high F values (8.746) and low p values (0.003) which is less than 5% level of significance.

Table 12: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	12.428	2	12.428	8.746	.003
Residual	108.518	75	1.421		
Total	121.30	77			

Table 13 shows the results of regression coefficients which reveal that a positive effect was reported for all the BPO aspects under study.

Table 13: Coefficients

	Unstandardized Coefficients Beta	Std. Error	Standardized Coefficients Beta	t.	Sig.
(Constant)	4.441	1.820		2.440	0.039
Selection of BPO opportunities	0.419	0.126	0.263	3.980	0.019
Cost management in BPO	0.421	0.237	0.073	3.639	0.020

Interpretation

From this study it was evident that at 95% confidence level, the variables produce statistically significant values for this study (high t-values, $p < 0.05$). A positive effect is reported for all the BPO aspects under study hence influencing financial performance of KPLC positively. The results of the regression equation below show that for a 1-point increase in the independent variables, financial performance is predicted to increase by 0.1441, given that all the other factors are held constant. The equation for the regression model is expressed as:

$Y = a + \beta_1 X_1 + \beta_2 X_2 + £$

$Y = 0.1441 + 0.419X_1 + 0.421X_2$

Where

β is a correlation coefficient

Y= Financial performance

X_1= Selection of BPO opportunities

X_2= Cost management in BPO

The findings therefore revealed that, selection of BPO opportunities, and cost management of BPO respectively influenced the financial performance of KPLC.

SUMMARY OF FINDINGS

The study sought to determine the impact of Business Process Outsourcing on the financial performance of KPLC. Specifically, the study considered selection of BPO opportunities; cost management in BPO;. A pilot study was undertaken with 12 respondents to test the reliability and validity of the questionnaire.

The findings revealed that all the two BPO aspects had a positive effect on the financial performance of KPLC. The empirical literature supported the research findings.

a) Does Selection of BPO Opportunities Influence Financial Performance of KPLC?

The findings of the study revealed that selection of BPO opportunities influenced the financial performance of KPLC. Results of the inferential statistics such as unstandardized regression coefficients show a positive effect on the financial performance of KPLC. This further indicates that selection of BPO opportunities had a significant effect on financial performance of KPLC as indicated by the low p values.

b) Does Cost Management in BPO affect Financial Performance of KPLC?

The finding of the study revealed that cost management in BPO affected the financial performance of KPLC. Results of the inferential statistics such as unstandardized regression coefficients show a positive effect on financial performance of KPLC. This further indicates that the cost management in BPO had a significant effect on the financial performance of KPLC as indicated by the low p values.

Conclusion

The objective of this study was to assess how KPLC can improve financial performance through Business Process Outsourcing. Based on previous studies, the aspects were expected to have a positive effect on the financial performance of KPLC. The study findings indicate that there is a significant positive relationship between the BPO aspects namely: Selection of BPO opportunities and cost management in BPO

Recommendations

With due regard to the ever increasing desire to have high financial performance in government institutions there is need to invest in various BPO strategies. This should be done in a manner in which all the stakeholders are happy. This ensures that they are incorporative hence players need to embrace proper strategies which are acceptable, accessible, ethically sound, have a positive perceived impact, relevant, appropriate, innovative, efficient, sustainable and replicable. This therefore calls for establishing strategies that meet consumer needs. Specifically the study recommends the following:

Management of KPLC should ensure there is existence of a competent BPO Analysis Team. They should also sensitize its employees on the core and non-core activities of KPLC, the activities outsourced and reasons for outsourcing. For effective implementation of BPO there should be an overall clear understanding of what it entails and requires for great performance.

The study recommends that the organization should put measures in place to ensure cost management in BPO. Research findings revealed that staff involvement in selecting BPO opportunities led to reduced operational costs. Management should therefore sensitize employees on the benefits of Business Process Outsourcing to reduce staff resistance. The findings revealed that staff challenges have resulted upon implementation of BPO. These have arisen in form of staff resistance, demoralization, disconnection with management and a complaint over additional work resulting from supervising contractor’s works.

Proposed areas for Further Research

This study is a milestone for future research in this area, particularly in Kenya. First, this study focused on the energy sector with specific reference to KPLC and therefore, generalizations cannot adequately extend to other sectors. Based on this fact among others, it is therefore, recommended that a broad based study covering all key government parastatals in Kenya be done to find out the impact of BPO on their financial performance. It is also suggested that future research should focus on different aspects of BPO on the performance of institutions.

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