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Critical Success Factors in Business Process Outsourcing of Logistics Companies in Kenya.

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Abstract: *This study was carried out to determine the critical success factors of business process outsourcing in the nascent Logistics Kenya context. A census of all the logistics companies operating in Nairobi was carried out. Data was collected through a questionnaire and factor analysis was conducted to establish the main factors. It was established that there are five critical success factors: investment of international companies in the local economy; internet connectivity; top management support; creation/expansion of a potential niche and necessary expertise. This exploration study will go a long way to help practitioners focus investment in these identified priority areas.*

Key words*:Critical Success Factors, Business Process Outsourcing, Outsourcing, Logistics*

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I. Background

Modern businesses are significantly affected by external global environment. Due to increasing global competition and declining profit margins most corporations are pursuing different supply chain strategies in order to grow market share, reduce operational costsand maximize the share holders' value. Outsourcing is one such strategy that helps firms torealize operational efficiency as well as attain competitive advantage [1]. Organizations concentrate with core activities while non- core activities are executed by network of Logistics Service Providers (LSPs) on contractual basis[2]. LSPs have become an integral part of many corporate supply chains [3]. However, outsourced firms are required to adhere to highest possible quality standard [4] because the process may lead to risks such as loss of organizational learning, information security and privacy problems arrangements[5], declining rate of innovation [6], motivation erosion of the remaining employees after outsourcing [7], low performance rates, high transaction costs and other hidden costs [8].

Business process outsourcing (BPO)introduces a different perspective, knowledge, experience and technology to an existing function and works with the firm to reengineer its processes. BPO is result oriented rather than a purely cost reduction strategy. The process is integrated into the company in a way that it improves bottom line and bring value to the shareholder [9].

Logistics is an area that is receiving significant attention from business management researchers. Logistics outsourcing typically involves the acquisition, handling, and or transportation of goods, a number of legal and regulatory issues specific to such services may arise, such as security interests, insurance, warehouse liens, and allocation of risk during transportation [10]. As with any BPO transaction, the customer and the vendor should consult legal and other counsel, as appropriate, to flesh out all of the applicable legal and regulatory issues and assist in identifying the risks and benefits of the transaction. LSPs in Kenya transport million tons of goods by rail, road or the Kenyan pipeline. However, LSPs face various challenges like procedural and physical impediments while moving goods along cross border boundaries. The current Kenyan Government strategy to mitigate these challenges entails investing in infrastructuraldevelopment and reforms that had previously been neglected.Other than a study that identified technological and infrastructural challenges faced by BPO service providers in Nairobi [11], little research has been conducted about critical Success Factors (CSFs). Therefore, the extant study seeks to address this gap by answering the question - *what are the critical success factors for BPO in Logistics industry in Kenya?* Drivers of business process outsourcing in SCM literature include: political stability; infrastructure; corporate culture; internet connectivity; top management support; availability of resources and availability of the necessary expertise. Success in BPO is reflected through realization of timeliness, cost reduction, flexibility, agility and better focus on core competencies. Figure 1 presents a conceptual framework detailing the variables for the study.

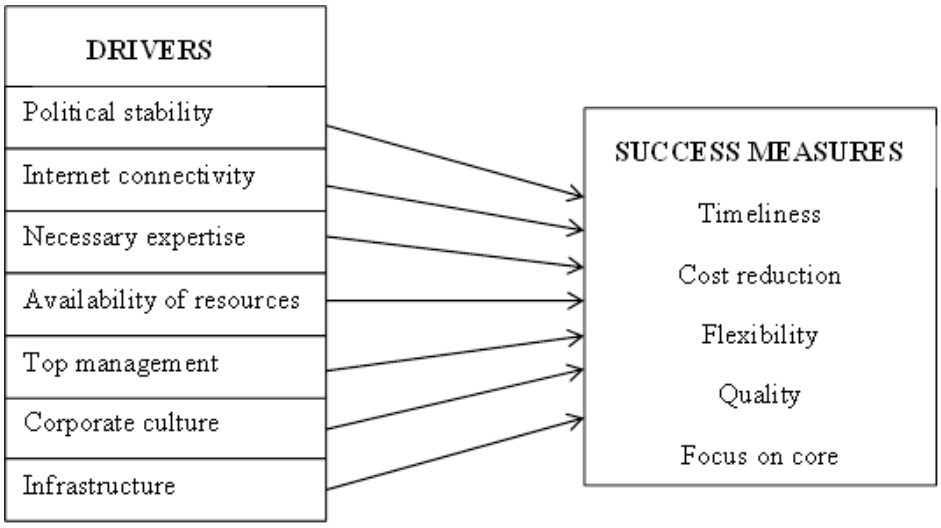


Figure 1: conceptual Framework

II. Research methodology

Thissection presents research design, population of the study, data collection and analysis. The study adopted a descriptive research design to help the researchers understand the drivers BPO success and further probe the phenomenon. The data was collected from all the 70 logistics companies operating in Nairobi.A censuswas appropriate because of heterogeneity of LSPs, operating in Kenya, in terms geographical area of operations. Semi-structured questionnaires were used to collect primary data for the study. The questionnaireshad two sections namely; section A contained questions on company profile while section B contained questions about factors that influence the success of BPO. The questionnaires were administered to the head of logistics departments or persons responsible for the logistics department. Data was analyzedby computing descriptive statistics. Regression Analysis and factor analysis were used to analyze the relationship between the drivers and BPO success measures. Qualitative data was analyzed by content analysis where pattern matching was done with the aim of unraveling points of divergence or otherwise.

III. Findings

This sectionhighlights the findings of the study in form of tables and charts.Of the seventy questionnaires distributed to the respondents, 51 questionnaires were successfully filled and collected; a72.86% response rate that was considered adequate for the study.A factor analysis was conducted on both the a priori and the emergent[1]CSFswith the aim of identifying the critical ones. The correlations between the factors varied from low-medium-high. There was observed moderate positive relationshipbetween political stability and corporate culture, implying that the factors are directly correlated. Furthermore, there was a strong positive correlation between infrastructure and internet connectivity, indicating that high investments in infrastructural development positively impacts on the level of internet connectivityamong logistics companies in Kenya.A moderate positive relationship between top management support and infrastructure was observed; implying that strong support from top management leads to infrastructure development in these companies.Similarly, there was strong relationship between availability of resources and internet connectivity, meaning that the availability of resources directly influences internet connectivity among logistics companies in Kenya.

On the other hand, education levels and top management support as well as exposure to diverse working cultures and availability of resources both are inversely correlated.Findings showed strong positive correlation between corporate culture and master of English language as a global language with a factor of 0. 768. It was evident from the findings that there was a very strong positive relationship between investment of international companies in the local economy and education levels, meaning that the two factors directly move in the same direction almost with the same magnitude. This therefore implies that the level of education in the labor market as a factor influences investment by international companies into the local economy. Equally, the study results show that there is a strong positive correlation between creation/expansion of a potential niche among logistics companies and educational levels.

[1]Other than the factors in the conceptual framework, Figure 1, other factors emerged [during content analysis] from data collected

The findings were considered valid because factor analysis suitability requires the correlation matrix to pass two criteria; (i) Bartlett's test of sphericityshould be statistically significant at $p<0.05$, and (ii) the Kaiser-Meyer-Olkin value should be 0.6 or above. From the study findings presented in table 1 above, the KMO value is 0.786, and the Bartlett's test is significant (p=.000), therefore factor analysis is appropriate.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.786
Bartlett's Test of Sphericity	Approx. Chi-Square	771.607
	df	78
	Sig.	.000

Table 2shows the analysis of the principal components, CSFs, in BPO that were subjected to factor analysis. A total of thirteen factors were subjected to factor analysis on the premise that each would return an eigenvalue of one.

Table 2: Communalities

	Initial	Extraction
Political stability	1.000	.883
Infrastructure	1.000	.916
Corporate culture	1.000	.900
Internet connectivity	1.000	.882
Top management support	1.000	.899
Availability of resources	1.000	.872
Necessary experts	1.000	.958
Master of the english language as a global language	1.000	.904
Electricity connectivity	1.000	.607
Education levels- university graduates	1.000	.929
Exposure to diverse working cultures	1.000	.863
Investment of international companies in the local economy	1.000	.941
Creation/expansion of a potential niche	1.000	.898

Extraction Method: Principal Component Analysis.

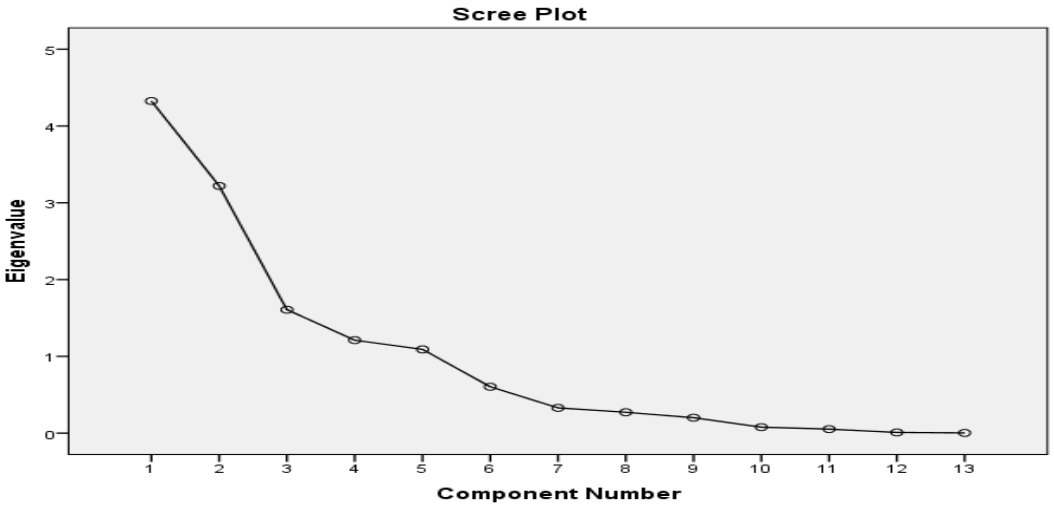
The total variance explained, table 3, shows the actual factors that were extracted. Of interest were those components that have an eigenvalue of 1 or more and there were five such components. The percentage of variance column shows how much of the total variability (in all of the variables together) can be accounted for by each of these factors. Together, the five factors explain 88.095% of the variance in the original data as shown in the cumulative percent column.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.325	33.269	33.269	4.325	33.269	33.269
2	3.219	24.764	58.032	3.219	24.764	58.032
3	1.607	12.364	70.396	1.607	12.364	70.396
4	1.210	9.311	79.707	1.210	9.311	79.707
5	1.090	8.388	88.095	1.090	8.388	88.095
6	.604	4.645	92.741			
7	.329	2.530	95.271			
8	.272	2.090	97.361			
9	.201	1.545	98.906			
10	.078	.598	99.504			
11	.053	.404	99.908			
12	.009	.070	99.978			
13	.003	.022	100.000			

Extraction Method: Principal Component Analysis.

Figure 2: Scree plot



As shown in the figure 2, factors 1, 2 and 3 explain or capture much more of the variance than the remaining factors. However, the plot gradient starts to level out after just five factors. This therefore means that the study will extract five critical success factors in business process outsourcing of logistics companies in Nairobi, Kenya.

The component matrix, table 4, is the last step of this factor analysis. From each of the columns, the factor with the highest loading was selected. Consequently, in column one, *investment of international companies in the local economy* is selected as the factor with the highest loading while *internet connectivity*, *top management support* and *creation/expansion of a potential niche* are selected as factors with the highest loading in columns two, three and four respectively. In column five *necessary expertise* was picked. This therefore implies that the abovementioned five factors are the critical success factors of business process outsourcing of logistics companies in Kenya.

Table 4: Component Matrix[a]

	Component				
	1	2	3	4	5
Investment of international companies in the local economy	**.958**				
Education levels- university graduates	.936				
Creation/expansion of a potential niche	.744			**.549**	
Exposure to diverse working cultures	.662	-.373	.480		
Electricity connectivity	.603			-.316	
Political stability	.584	.348		-.573	
Internet connectivity		**.831**			.318
Corporate culture	.461	.806			
Infrastructure		.795			.318
Master of the english language as a global language	.355	.615	.513		
Top management support	-.570		**.686**		
Availability of resources		.526	-.674		
Necessary experts		.366		.305	.450

IV. Conclusion

This section presents a summary of findings on critical success factors in business process outsourcing of logistics companies in Kenya. The section also presents the conclusion and recommendations made based on

the findings. The objective of the study was to determine the critical success factors of BPO companies in Kenya. The study subjected a total of thirteen critical factors to factor analysis. The study identified five critical factors that were significant to business process outsourcing; (a) the factor that had the highest variance was investment of international companies in the local economy. It was established that the level of investment by international companies in the Kenyan economy affects the success of business process outsourcing. These companies bring with them a wealth of experience that benefits the local economy as far as business process outsourcing is concerned, (ii) it was established from the study that internet connectivity was the second most critical success factor in business process outsourcing among logistics companies in Kenya. Most of the logistics companies indicated that internet connectivity assists the companies to do competitive sourcing and that the firms are able to reach a wider network of companies that can be able to provide required services, (iii) the researcher also found out that top management support is the third most important or critical success factor in business process outsourcing. The top management of logistics companies isvery important in providing leadership during business process outsourcing. Lack of proper leadership from top management adversely affectssuccess of business process outsourcing initiatives, (iv) it was clear from the study that logistics companies engaging in business process outsourcing need to create or expand a potential niche in order to be successful. This gives the outsourcing company an edge over its competitors, and (v)necessary expertise was the last critical success factor extracted from the findings. Business process outsourcing needs to be carried out by people or experts with wide knowledge and experience. Availability of such experts or non-availability will therefore determine the outcome of a business process outsourcing initiative.

V. Recommendations for future research

Logistics companies in Nairobi should ensure plans are in place to cater for the five critical success factors when implementing any BPO initiative. The logistics companies should allocate resources and time according to the variance each of the factors. This is because they do not carry the same weight and affect BPO success differently. It is important to carry out a similar study in a different industry in Kenya so as to compare the findings for any similarities and differences. A comparative analysis with other countries could also assist shed light on the critical success factors and challenges of BPO.This study can also be replicated after some duration for instance 5 years in order to find out whether there are changes as far as the critical success factors for BPO among logistics companies in Kenya are concerned.

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