

*Review*

# Outsourcing and Vision 2030: An analysis into Kenya's new economic frontier

XN Iraki

School of Business, University of Nairobi, Kenya.

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Vision 2030 is Kenya's new blue print that aims at transforming the country into a middle income country by the year 2030. One of the identified sectors that will catalyst the achievement of Vision 2030 is Business Process Offshoring (BPO). Thousands of jobs are expected to be created in this sector whose strength is expected to come from a well trained manpower, Information Communication Technology (ICT) infrastructure and supportive Government policy. The arrival of EASSY, TEAMS and SEACOM undersea cables are seen as the first step in starting off this sector. This papers analyzes the state of Kenya's readiness for BPO and makes bold recommendations on transforming Kenya into an outsourcing hub which can compete favorably with other hubs such as India and Philippines. The paper further analyses on how BPO can be scaled up to include high value jobs such as in R and D, beyond the back office. The operational issues arising from BPO are also addressed.

**Key words:** Business process off shoring, outsourcing, Information Communication Technology (ICT).

## INTRODUCTION

Kenya's Vision 2030 sees Business process outsourcing (BPO) as one of the fulcrums on which Kenya's future economic growth will hinge on. Yet, the foundations of BPO are not deep enough in terms of what is to be outsourced and how. This paper attempts to explore the how and what of BPO, drawing lessons from other countries that pioneered this industry. Binder (2007) calls outsourcing the third industrial revolution. Kenya is eager to ride on this third revolution and possibly jump the other two.

The World Bank is eager to support with about Ksh 600 million given to Kenya still underutilized as noted by Kamau (2009) because of stringent government regulations. The main driving force for BPO and Vision 2030 is the need to create jobs, for the increasing population and improve the standards of living to make Kenya a competitive and prosperous nation (GoK, 2008).

Traditionally, the term outsourcing evoked components or parts for machinery. But today, it is more than parts, Quinn (1997) notes that "emphasis is rapidly shifting from outsourcing parts, componentry and hard ware

subsystems towards the even greater unexploited potentials that intellectually based systems offer." Kenya is starting at the lower with call centers. But she should soon follow the advice of Quinn if the excitement created by the arrival of the undersea fiber optic cable is to go by. The cables are expected to lower the costs of the internet making it cheaper for outsourced services and therefore, make Kenya more attractive.

Grossmann and Helpman (2005) suggested we live in the age of outsourcing, where firms subcontract activities ranging from product design to R and D, to marketing, distribution and after sales services. This clearly shows there is a huge market for the off shoring beyond outsourcing. But outsourcing knowledge based systems is more complex than parts outsourcing, it demands more knowledge, expertise and training and innovation to deal with the intricacies of the service based economies (Figure 1), which Kenya aspires to be (Republic of Kenya, 2008). The biggest challenge facing Kenya is changing the national psyche from the seeing outsourcing as simply low level jobs to high quality jobs

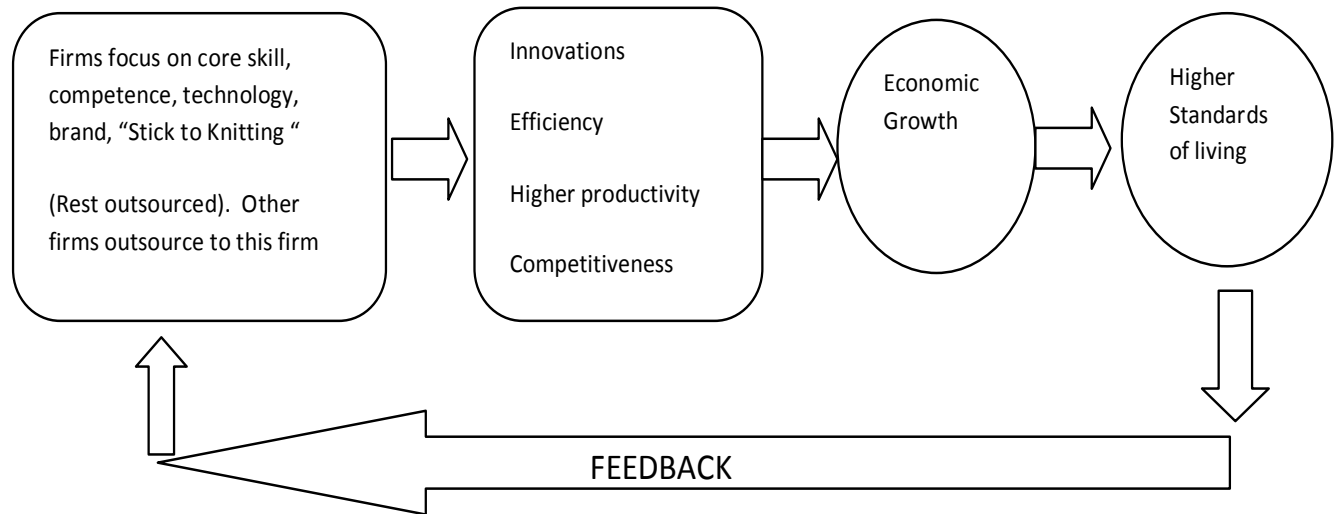


Figure 1. The outsourcing 'supply chain'.

involving research and development and other high value jobs.

The potential of off shoring was further supported by Amiti and Shang-Jin (2005) who found that service outsourcing is still low, and that job growth at sectoral sector is not negatively related to services outsourcing. Their observation is important because outsourcing often invokes fear of losing jobs overseas particularly in developed countries.

Drezner (2004) observed that the fear invoked by politicians in the US particularly during the elections that outsourcing is about exporting jobs including the fact that a person is safe once they are in services is not justified. He argues that if protections follow from the politicians' rhetoric, it will do more harm than good to the economy. Scheiber (2004) notes that rising wages in outsourcing hubs may be self correcting and reduce savings of US firms and may soothe the sentiments of politicians. He further notes that the rising labor costs could benefit American firms like IBM consulting who are in many countries and are able to shift their work to take advantage of labor cost differentials. The same sentiments are being felt in Europe as outsourcing accelerates. But labor laws make it hard for European firms to create value from outsourcing (Farrell, 2004). This is the more reason outsourcing has lagged behind in Europe where labor laws make it very hard to fire workers.

**WHY DO FIRMS OUTSOURCE? HOW DO FIRMS OUTSOURCE?**

Scale economies provide a strong motivation to outsource (Cachon and Harker, 2002). Firms outsource to lower costs, risk and fix investments while at the same time expanding their flexibility, innovative capabilities and

opportunities for creating value addition and increase shareholders return .They want to leverage on time and cost advantages (Quinn, 1997; Mehta et al., 2006). Dell is the best example of a firm that had greatly benefited in outsourcing. Kenya breweries led outsourcing regime in Kenya.

Some of the services firms outsource include internal exchange, pensions, HR, custodial services, accounting transportation, security and more. Today, outsourcing is no longer an operational issue where you "dump" low value jobs to foreign countries; it is about strategic issues too, affecting the top management, since strategic activities such as research are also being outsourced (Grossman and Helpmann, 2005). Giridharada (2007) also observed that while collar jobs are joining the outsourcing business, to include investment banking, aircraft engineering, and pharmaceutical research. Beaumont and Sohal (2004) noted that firms outsource to reduce and control operating costs, concentrate on core activities and competences, deal with variable and fractional demand, avoid cultural problems,

Garner (2004) observed further that regulation, made foreign countries more attractive with the jobs most likely to be outsourced having the following characteristics, they are labor intensive, information based, codifiable, and have transparency between workers and customers. Intellectual outsourcing, the high value jobs that demand more brains than brawns has unique problems because of information asymmetry with suppliers having more knowledge and expertise than the clients. The clients not sure of costs may lose control, and when not sure of outcomes and internal personnel may fear outsourcing. Quinn (1997) argues that by focusing on what customers care about, being innovative, being flexible, leveraging on your resources, you could mitigate some of the concerns of intellectual outsourcing.

Deciding what is core and not outsourceable is the

heart of outsourcing strategy. Quinn argues that by not outsourcing the skill that is best in the world from someone else, you give up a competitive edge. This is an interesting observation, an acknowledgment that there are best practices elsewhere and you need to take advantage of them. The thinking is that you should also have the best practice, a core competence or skill to which other firms will outsource to you. With every firm doing what it is good at, quality rises and so are innovations and productivity, all having a positive effect on the economic growth rate. Comically, the economist, reports how US and other governments outsourced torture in the aftermath of the September 11 terrorist attack.

### **Becoming an outsourcing hub**

To attract outsourcing business, a region or country should have low costs of manufacturing, availability of skilled labor, business friendly environment, existence of production and supply networks. In addition, there should be Internet, liberalization of emerging markets, acceptance of English as the medium of instruction, business, communication, tech-savvy graduates, and a vibrant economy (Bardhan and Kroll, 2003).

In addition, the shortage of skilled labor in industrialized countries, leads to the high salaries of such skills, yet, there is a lot of supply of such labor in developing countries at lower wages. Outsourcing tries to take advantage of this differential in labor costs. It is unfortunate but an economic reality that the high unemployment rates in Kenya would make it attractive to BPO, the oversupply of labor would lead to low wages.

Technological, political, and economic changes and ability to manage risks are driving growth in outsourcing. In Kenya, technology is driving the BPO industry as indicated by the competition by SEACOM, EASSY and TEAMS to land fiber optic cables in Kenya and to get a head start in BPO industry as a result of cheap internet. Political changes, from multi-party to coalition government have made Kenyans think differently about the economy. Firms manage risks by diversification, moving to different countries. Lowering of tariff barriers resulting from GATT, and WTO agreements has made it easier for firms to shift their production offshore without raising the specter of protectionism.

Providers are moving up the value chain into knowledge based industries such as healthcare, pharmaceuticals, legal and financial services. By 2010, HR and customer contact services constituted 52% of BPO services (Rodolfo, 2005)

To become a BPO hub also demands a good telecommunications infrastructure, qualified HR, building space and other amenities. For example Philippines BPO advantage includes, social environment with high literacy rates, high graduation rate with 360,000 graduating a year with technical and business skills. Philippines' also

has good telecommunications, real estate, tech parks, venture capitalists, low labor costs and English. However, there some challenges to overcome including shortage of qualified employees, with the right mix of skills and motivations, low IT levels, politics with active insurgents and high power costs. Major focus is on growth in call centers, medical transcription, animation, and software development.

Garner (2004) however argues that the lower labor costs that attract outsourcing firms can be compensated by higher productivity of workers in developed countries. For example, it costs 60,000 to 80,000 \$ to hire a programmer in US and less than 11,000 in India. But the dynamics are changing as developing countries like India start matching developed countries in high end skills. This is reflected by the rising labor costs in India. The low labor costs are counterbalanced by the need to improve education system, water, power and other services (Giridharadas, 2007).

### **Beyond outsourcing**

The best firms in the world goes beyond benchmarking to "figures of merit", ensuring that competitors are attracted to you. Firms can outsource traditional functional specialties for example, HR, integrated across divisions do special projects where integrating people may not be quickly realized. Outsourcing leads to access of innovations from the best focus on what, and results to encourage creativity (Quinn, 1997)

Finally, controls are important in outsourcing, especially in ensuring goal and value congruence, building more professional and highly trained procurement and contract management group, developing enhanced information systems at all levels, measuring benefits of outsourcing, developing feedbacks, and getting an executive one level higher than those affected to be in charge of outsourcing.

Quinn concludes by saying that strategically managing knowledge, innovating and outsourcing will be among the greatest and most rewarding challenges of the new era.

Garner (2004) argues that if outsourcers grow, US gets a bigger market for goods and services and in the long run, the result would be that unemployment becomes longer for older workers.

### **Outsourcing has a darker side**

How do you ascertain relevant costs, maintain relationship, loss of distinctive competences, change, loss of flexibility, and could outsourcing be a fad? Mckinsey (2003) noted that failure to analyze vendors can lead to failure. They suggested leveraging on the economies of scale and skills, accessing low cost locations and labor, innovating and codifying how the process is performed also accelerate capture of savings and reduce risks by contractually guaranteeing performance, Farrell (2004)

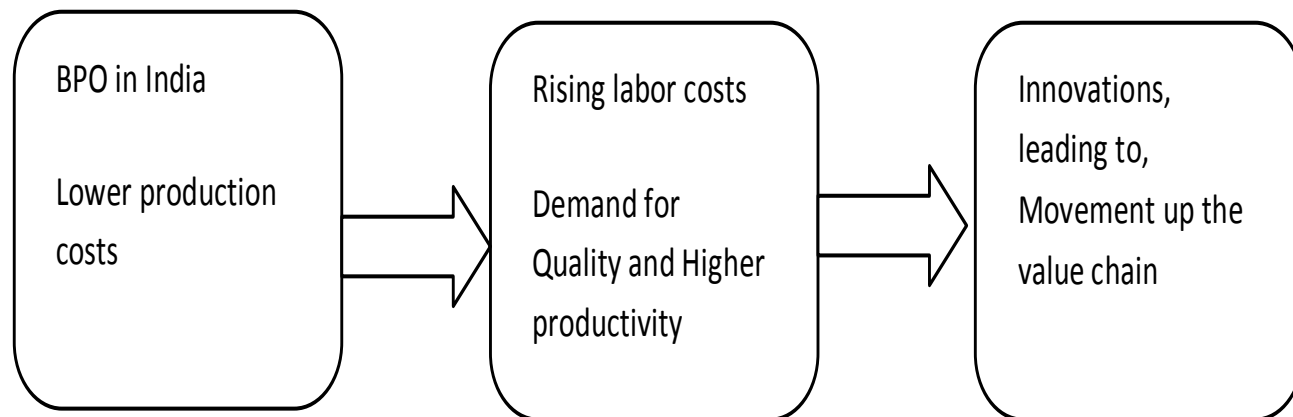


Figure 2. Indian model.

opines that reduction in costs, improvement of quality, extension of the scope of customers' service, language and culture, increase costs of outsourcing in Europe. Protection, as regards demographics of the aging population increases productivity. Outsourcing is expensive at times because of hidden costs such as the search costs, transitioning, and managing outsourcing, switching vendors and re-integrating the outsourced activities.

The success of Indian model hinges on focus on science and technology (Figure 2), English language and the large Indian Diaspora that returned home with the state of the art skills acquired in the West, particularly in the Silicon Valley. Many Kenyan adults can recall being taught a science or mathematics by an Indian, but not history or any humanity. Several Indians have won Nobel prizes in sciences. The setting up research labs by Microsoft and IBM are clear indicators that Indian outsourcing has gone a notch higher. We are not forgetting the much publicized nuclear cooperation agreement with the USA.

### Kenya's blue print for BPO

Current initiatives of BPO include digital villages, though cybercafés were already in existence. Should the initiative be private sector driven or government driven? In answering this question, the case of the "post office vs. email" should be considered.

The establishment of the ICT board and the Ken Call (Kenya's first off shoring facility) was more successful than anyone expected with about 3,000 seats. It was a private sector initiative. Currently, lots of money was given to the sector by the World Bank, and about 600 million ksh is still unused in the ICT sector.

SEACOM, EASSY and TEAMS marine cables can be used to increase BPO as a result of cheaper internet. Their arrival has been much publicized by events

attended by the head of state. The country as a whole is awash with trenches through which fiber optic cables are laid to wire the country.

Training of HR on BPO is going on at the Kenya Multimedia University, a bold attempt to impact skills that drive the nascent BPO industry. From the lessons derived from India and elsewhere, we recommend the subsequent blue print as a guide to entrenching BPO/KPO as a catalyst to Kenya's economic growth (Figure 3).

### CONCLUSIONS AND POLICY IMPLICATIONS

Kenya has started the BPO process and the potential is there, but this study only focused on high value activities, where there is less competition. We envisage the use of the Philippines model, then upgraded to the Indian and USA model, taking into cognizance our unique location and socio-cultural set up. The need to deal with high unemployment rates is no excuse to focus on low value jobs, when the brain power to move up is already there or can be developed and enhanced, even before 2030. We need to move from Business Process Offshoring (BPO) to Knowledge Process Offshoring (KPO). Kenya's dream in offshoring is put clearly by Manson (2011), "Kenya's Silicon Savannah is modeled on Silicon Valley in the US and aims to have all the ingredients for entrepreneurial success in the same place to help companies do just that - not only talent and infrastructure - but also universities to nurture innovative students and the businesses to employ them afterwards (Figure 4)." Kenya's Silicon Valley is not a valley, it is a plain located at Konza, around 50 km on the Nairobi -Mombasa road. On this semi-arid plain, the next generation of entrepreneurs will find a footing, offering services to the world and putting to rest the law of diminishing returns. With government and the private sector, Konza offers Kenya a chance to leapfrog from agrarian age to computer age in less than a

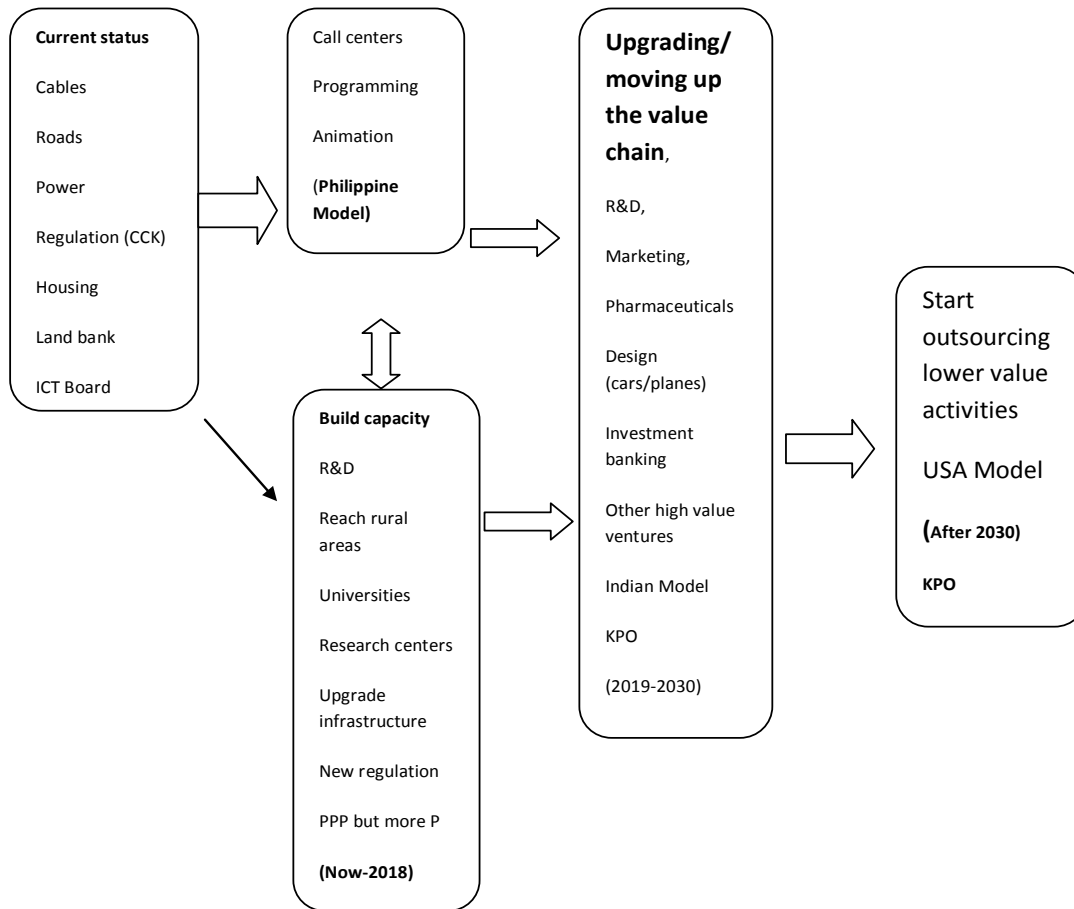


Figure 3. Kenya's BPO/KPO blue print.



Figure 4. On these savannah plains, enterprises will rise. Photo by author.

generation.

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