Influence of Business Process Outsourcing Practices on Performance of Procurement Function of Tea Firms in Kericho County, Kenya

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Abstract: Business process outsourcing is the process by which firms contract other firms to carry out responsibilities and activities previously internally implemented. Activities mostly outsourced are non-core activities. Organizations outsource in order to cut down on operation cost, focus on core activities and gain access to expertise. Tea growing is vital to Kenya’s economy. After coffee, it is the second largest cash crop in terms of earning the country foreign exchange. In terms of structure, economic contributions, and performance within the country’s economy, this sector is very vital comprising of small-scale farmers to large multinational companies. The purpose of this study was to examine the influence of business process outsourcing practices on performance of procurement function of tea firms in Kericho County. The study applied a descriptive research design that involved conducting a field study. The sample size of the study was 100 members. Kericho County choice is due the fact that is the highest tea producing country in Kenya. Simple random sampling technique was used to select a sample from the population. Only primary data was considered for this study. Quantitative data was analysed using SPSS (Statistical Packages for Social Sciences). In the context of lowering of direct transport costs, lowering of indirect transport costs, easy access to transportation compared to vehicle purchases, cost efficiency, and concentration on core functions, it had means of 4.2738, 3.4524, 4.1905, 4.0952, and 3.4524 respectively. This implies that in respect to the outsourcing of the transport services, the respondents on average tended to be uncertain to the outsourcing of the transport services leading to lowering of indirect costs associated with transport and the outsourcing of the transport leading to better concentration on the core functions due to both having a mean of 3.4524. On the other hand, the respondents tended on average to agree that the transport outsourcing led to lowering of direct transport costs, easy access to transportation compared to vehicle purchases, and cost efficiency due to means of 4.2738, 4.1905, and 4.0952 respectively.

Keywords: Business Process Outsourcing, Performance, Procurement Function

I. Introduction

The concept of outsourcing traces its origins to ancient Roman Empire where tax collection was subcontracted (Ronoh, 2005). In the early years of United States of America (USA) as a nation, the wagon construction was outsourced to Scotland where they were constructed using raw materials imported from India (Kahindi, 2010). The Business Process Outsourcing (BPO) involves the arrangement with an external entity for the provision of goods and services to complement or supplant internal efforts (Lolkidianye, 2012). BPO has also been perceived as a business strategy that moves some of an organization processes, decision-making responsibility and or functions from within the organizational to an external service provider (Tiema, 2009).

Businesses faced with increasing competition needs to be increasingly flexible to respond to the market needs and direct their skills and resources to high value added activities that they have competence in (Neemeka, 2012). The firms must then outsource functions that are not core to its production or they don’t have the capacity to competitively implement in a cost efficient manner. Other reasons leading to the businesses to outsource include reduction of operational costs, superior flexibility, utilization of cutting edge technology, cost reduction, product quality improvement, customer service improvement, bridge gap in staffing requirements and acquisition of competitive advantages(Yueng, 2014). Factors influencing a company’s engagement in the BPO process include the type of the business that the firm is engaged in, ownership of the businesses, scope of competition for expert services, government policies, organizational culture, cost of setup and the ability of businesses to restructure and reorganize their working methods to take advantage of the new chances made available through the outsourcing strategy (Ochola, 2013). The Business Process Outsourcing (BPO) is often implemented among the undertaking that requires greater proficiency, knowledge, capital, education and skills to handle, resource demanding, relative competencies, and involve expert competencies (Muriithi, 2014).

Other characteristics for services that are readily outsourced include services subject to fast changing technology, and characterized by changing work patterns (Kiptum, 2014). Amongst the services that can be outsourced include staff management, production process management, quality assurance, customer service...
functions, and key asset management of these functions (Bolo & Mutua, 2014). The advantages of the BPOs include market growth, increased staff morale and satisfaction, improved customer satisfaction, increased supplier satisfaction, higher product availability, positive effect on return on investment and reduced field complaints (Shaviya, 2013). However, the BPO also have certain challenges including reduction of company’s control over how certain processes are conducted, thus raise the company’s exposure to liability. BPO involving foreign companies pose additional risks associated with different legal and cultural settings as well as coordination challenges (Ngatia, 2013).

Tea is one of the main beverage crops in the world. The major tea-growing areas of the world are South-East Asia and Eastern Africa where it is grown across a wide range of altitudes up to 2200 (Chepkemoi, 2014). Sri Lanka produces 325,000 MT of tea and exports around 305,000 MT of tea. By exporting only the superior teas, Sri Lanka is doing well in the global marketplaces for their orthodox teas. Presently China has a share of around 8% in black tea (Ngatia, 2013). On the other hand, though their imports levels are on a decline UK and Ireland are the traditional markets for tea. The outbound logistics is one of the BPO activities that Tea firms engage in. This entails the movement of the products from operations to the end user and these include finished goods warehousing, order handling, order picking, packing, shipment, transport and repairs of a distribution network (Chimoita, Maina, Olila, & Onyango, 2015). The elements of outbound logistics have always been fundamental to the Tea sector, storage and movement of goods and services (Tiema, 2009). Auctions in tea producing countries such as Sri Lanka and Kenya have been quite effective in price discovery and these countries are constantly working to strengthen their auction systems through outsourcing to external firms (Chepkemoi, 2014).

Within the context of Africa, Malawi and Zimbabwe are tea producing countries. Malawi exports about 43,000 tonnes annually and has about 3% share of world export (Tiema, 2009). On the other hand, the tea production in Zimbabwe commercial began with the successful establishment of the irrigated tea estates and exports over 15,000 tonnes of tea per year. The production of tea within Malawi and Zimbabwe has not embraced BPOs in their respective industry and is relatively undeveloped in comparison to Kenya’s tea industry (Ngatia, 2013). The greatest challenge in Kenya’s tea subsector is the high cost of labour. Labour constitutes about 55% of total cost of tea production out of which 75% relates to the labor-intensive manual harvesting of the crop (Ronoh, 2005). The high labour cost together with declining tea prices leads to the declining earnings in the sector. The tea firms must therefore pursue appropriate BPO processes in order to lessen high labour costs thus ensuring the sustainability of the sector. The tea sector in Kericho County often outsources the Mechanical Technology Harvesting (MTH) making the process to be process efficient. In this context, the tea firms with little capital often subcontract firms or persons with the MTH without having to incur the high initial investments required to purchase the machinery. The MTH is estimated to be 50% cheaper compared to manual tea harvesting. Tea is Kenya’s second largest cash crop in terms of earning the country foreign exchange after coffee. For example, in 2013 Kenya produced 324,000 metric tonnes (MT) of tea. The country has an estimated 100 factories dealing with the subsector that is composed of large plantation sub sector owned and operated by private firms as well as smallholder subsector managed by Kenya Tea Development Agency (KTDA) (Chepkemoi, 2014). KTDA currently manages over 54 tea factories in the smallholder sub-sector serving over 400,000 small-scale farmers. Kericho County situated in the former Rift valley province, Kenya is one of the largest a tea-growing zone in the country and over 70% of the population is engaged in agricultural activities mostly as small-scale farmers.

II. Literature Review

Theoretical Review

The theoretical review was based on the theory of transaction cost economics. The theory of transaction cost economics is attributed to Oliver Williamson working on works first originated by Ronald Coase (Emmanuel, 2013). The theory of transaction cost economics seeks to examine the logic of the existence of firms (as opposed to having individual transactions in the market). The theory in addressing this question indicates that the firms exist with a view of minimizing transactional costs of individual transactions that would take place in a market between a buyer and a seller (Maami, 2011). The processes of individual transactions are better structured within firms because of limitations of human cognitive capabilities, costs associated with individual transactions as well as failure to take hold of basic assumptions associated with efficient markets such as rational actors, perfect information, homogeneous goods, and the absence of liquidity constraints (Kamuri, 2015). The transactional costs are perceived to have occurred every time a good or service is transferred from one stage to another where new technological capabilities are needed to make a product or service.

The theory also seeks to examine the circumstances when it is beneficial to undertake a particular process within the firm and circumstances making it ideal to outsource a given process to outside firms (Maami, 2011). The theory of transaction cost economics also examines the boundaries between what is better performed within the firm and what should be outsourced. In addressing these two questions, the theory of transactional
costs sees the institutions and the markets as different possible forms of organizing and coordinating economic transactions. When external transaction costs are higher than the company’s internal bureaucratic costs, the company will grow. This growth will be due to the ability to cheaply produce a given item or undertake certain processes cheaply than if the activities were undertaken from outside the company (Ochola, 2013). However, if the company’s internal bureaucratic costs of producing an item or undertaking a given process are higher than the external market, then the company must outsource or it will perish.

Transaction cost economics theory (TCE) has been the most used theory of adopting BPO and is perceived to offer the best decision making tools to help firms decide whether to outsource and to prepare themselves for impending outsourcing arrangements (Ichoho, 2013). TCE argues that all functions where benefits to the company are higher than the transaction costs should be outsourced. Benefits include increased revenues and reduced costs of production. This theory is applicable to this study in the following manner. The study wishes to examine the influence of the Business Process Outsourcing (BPO) on the performance of the procurement function within the tea firms in Kericho County. These firms must be in a position to understand which functions can be outsourced and which functions are better performed in-house. The accurate identification of the characteristics of these functions that are better outsourced as indicated in the theory of cost economics would go a long way in enhancing the productivity of the procurement department.

**Concept of Business Process Outsourcing**

Business process outsourcing (BPO) has been conceptualized differently among different authors (Yueng, 2014). BPO has been defined as the contracting of the operations and specific business processes tasks to third party service providers. It is the shifting of conventional business activities to firms outside of the business, whose value is to gain access to world class abilities (Muriithi, 2014). BPO has also been defined as the movement of a chain of connected business processes to a third party to manage them on the behalf of the firm (Bugo, 2014). BPO has also been defined as the transfer of certain value contributing activities, processes, and or services to the premises of third party firm to save on costs and for the principal of increasingly focusing on areas of key capability (Ronoh, 2005). There are three levels of BPO namely tactical, strategic and transformational. The tactical outsourcing is used by firms to resolve specific problems being experienced by firms such as lack of enough financial resources to make capital investments, inadequate in-house managerial skills or a need to downsize (Stayton, 2011). Tactical outsourcing results in visible benefits in the form of improved cash savings, reducing the need for future investments and determining staffing problems. The strategic outsourcing is used to redefine an organization and results in freeing management staff to focus on the core business roles (Ngatia, 2013). Strategic outsourcing relationships build lasting value resulting from the client working with a fewer number of best-integrated service providers. On the other hand, transformational outsourcing is used to redefine the business processes enabling the firm to retain leadership position, build sustainable competitive advantage, and generate highest value for an organization (Tiena, 2009).

**Outsourcing Transportation Services on Performance of Procurement Function**

Transport is the physical movement of goods/material through the Supply Chain. Transport is needed throughout the whole Supply Chain, being the link between supply chain members (Kimaru, 2014). The quality of transport service affects the competitive advantage in the ever turbid business environment. The highly competitive environment and the customer’s need for tailored products and services has influenced companies to continuously evaluate, improve and re-engineer their logistics operations (Muluvi, 2014). There are numerous transport functions within the tea industry. For example, the actual supply chain of a KTDA factory begins with the farmer who is the supplier of green leaves (Ngatia, 2013). The green leaf leaves the farm and it is transported by the farmer to a tea collection centre where weighing is done using an Electronic Weighing Solution (EWS) (Githinji, 2012). The green leaf is then transported to the factory using tea collection trucks. At the factory the green leaf is received and the weight is confirmed before processing begins. Once the processing is completed, the processed tea is packaged and transported to a Mombasa warehouse where auction is done and the tea ends up either with a local or international buyer (Bugo, 2014).

This extensive transportation needs requires heavy investments in the transport department (Kahindi, 2010). Transport operations are normally capital intensive due to the need to purchase the vehicles, employ the drivers, institute a fleet management system for the vehicles, repair works, security of the vehicles and the cost efficiency of maintaining the vehicles (Maami, 2011). The transport operations may therefore consume a lot of capital that may be used for other core functions in the production of tea, harvesting, and packaging. The idea of outsourcing isolated logistics activities such as transportation to external services providers is not a new phenomenon but in today’s business environment, outsourcing is one more approach that can lead to greater competitiveness and competitive, reliable transportation enables manufacturers to manage their distribution system with lower inventory in fewer locations and with increased confidence (Kalamu, 2010).
III. Objective of the Study
To determine the influence of outsourcing transportation services on performance of procurement function among tea firms in Kericho County

IV. Research Hypothesis
H0: There is no significant statistical relationship between outsourcing transportation services and performance of procurement function among tea firms in Kericho County

V. Methodology
The study adopted the descriptive research design. The descriptive research design describes the present status of a phenomenon, determining the nature of prevailing conditions, practices, attitudes and seeks accurate descriptions (Mugenda & Mugenda, 1999). The descriptive study describes the phenomenon as it is on the ground without any manipulation of variables. This method was considered appropriate because the researcher collected the data of the phenomenon under study in its natural environment and without any manipulation of the variables. The study’s populations were the employees in tea firms in Kericho County composed of operations staff, junior management, middle management and senior management in procurement department. There is an estimated 133 management staff in the KTDA managed factories, Multinational tea firms such as Unilever Tea (K) Ltd, James Finlay and Williamson Tea and small independently managed tea firms in Kericho (Chimoita et al., 2015). The Yaro Yamane’s formula was used to calculate the sample size as follows;

The Yaro Yamane’s formula was used to calculate the sample size as follows;

\[ n = \frac{N}{1+N(e^2)} \]

where \( n \) = sample size

\[ N = \text{Population size} = 133 \]

\[ e = \text{tolerable error (5%)} \]

\[ n = \frac{133}{1+133(0.05^2)} = 99.81 \text{ approximately 100} \]

A sample size of 100 was used for the study

A sample size of 100 was used for the study. The target sample size of this study is 100 respondents therefore 100 questionnaires were distributed to potential respondents. Out of the 100 questionnaires distributed, 14 questionnaires were not returned therefore 86 questionnaires were returned making a response rate of 86%. A further two questions that were not completely filled were not analyzed therefore a total of 84 questionnaires were analyzed that is 84% of the total questionnaires that were distributed.

VI. Findings And Discussions
In order to determine the influence of outsourcing transportation services on performance of procurement function among tea firms in Kericho County, the following five questions were used;

i. The outsourcing of the transportation costs has lowered direct costs associated with the transportation such as purchase of vehicles

ii. The outsourcing of the transportation costs has lowered the indirect costs associated with transportation such as fleet management, drivers etc

iii. The outsourcing of the transportation services enables easy access to the transportation services compared if the same had to be purchased

iv. The outsourcing of the transportation enables the cost efficiency in the transportation department in tandem with the capacity of the firm

v. The transport outsourcing enables the firm to concentrate on the core functions leaving any risks associated with the management of the transport to the outsourced company

The likert scale of Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), and Strongly Disagree (SD) was used.

The outsourcing of the transport services was measured using five metrics; lowering of direct transport costs, lowering of indirect transport costs, easy access to transportation compared to vehicle purchases, cost efficiency, and concentration on core functions. The likert type questions were used for the measurement of this independent variable with the descriptors Strongly Disagree (SD), Disagree (D), Uncertain (U), Agree (A) and Strongly Agree (SA) which were inputted as 1,2,3,4 and 5 on SPSS. In respect to the lowering of direct transport costs the responses were 17.9%, 27.4%, 36.9%, 17.9%, and 0% for strongly agree, agree, uncertain, disagree, and strongly disagree respectively. The responses for lowering of indirect transport costs were 36.9%, 42.2%, 20.9%, 0%, and 0 for strongly agree, agree, uncertain, disagree, and strongly disagree respectively. In respect to
easy access to transportation compared to vehicle purchases the responses were 27.9%, 54.8%, 17.9%, 0%, and 0% respectively. The responses for cost efficiency were 25.4%, 56.8%, 17.9%, 0%, and 0% for strongly agree, agree, uncertain, disagree and strongly disagree respectively. Finally, in relations to the concentration on core functions the results for 17.9%, 27.4%, 36.9%, 17.9%, and 0% were strongly agree, agree, uncertain, disagree and strongly disagree respectively.

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
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<tbody>
<tr>
<td>The outsourcing of the transportation costs has lowered direct costs</td>
<td>17.9%=27.4%</td>
<td>36.9%=17.9%=0%</td>
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<td>associated with the transportation such as purchase of vehicles</td>
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<td>The outsourcing of the transportation costs has lowered the indirect</td>
<td>36.9%=42.2%=20.9%=0%=0%</td>
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<td>costs associated with transportation such as fleet management, drivers</td>
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<td>etc.</td>
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<td>The outsourcing of the transportation services enables easy access to</td>
<td>27.9%=54.8%=17.9%=0%=0%</td>
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<td>the transportation services compared if the same had to be purchased</td>
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<td>The outsourcing of the transportation enables the cost efficiency in</td>
<td>25.4%=56.8%=17.9%=0%=0%</td>
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<td>the transportation department in tandem with the capacity of the firm</td>
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<td>The transport outsourcing enables the firm to concentrate on the core</td>
<td>17.9%=27.4%=36.9%=17.9%=0%</td>
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<td>functions leaving any risks associated with the management of the</td>
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<td>transport to the outsourced company</td>
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The means for the outsourcing of the transport services were examined. The achieved means scores were interpreted as 1<μ<1.5, 1.5<μ<2.5, 2.5<μ<3.5, 3.5<μ<4.5, and 4.5<μ≤5 where μ represents the mean were that the respondents on average tended to strongly disagree, disagree, be uncertain, agree and strongly agree respectively in relations to the given metric.

In this context, lowering of direct transport costs, lowering of indirect transport costs, easy access to transportation compared to vehicle purchases, cost efficiency, and concentration on core functions had means of 4.2738, 3.4524, 4.1905, 4.0952, and 3.4524 respectively. This implies that in respect to the outsourcing of the transport services, the respondents on average tended to be uncertain to the outsourcing of the transport services leading to lowering of indirect costs associated with transport and the outsourcing of the transport leading to better concentration on the core functions due to both having a mean of 3.4524. On the other hand, the respondents tended on average to agree that the transport outsourcing led to lowering of direct transport costs, easy access to transportation compared to vehicle purchases, and cost efficiency due to means of 4.2738, 4.1905, and 4.0952 respectively.

The standard deviation measures the dispersion of the responses from the mean with an interpretation assigned as follows; 0<σX<0.5, 0.5<σX<1, and σX≥1 were interpreted as responses clustered around the mean, responses moderately distributed, and lack of consensus on a given metric.

<table>
<thead>
<tr>
<th>Table 2: Descriptive Statistics on Transport Services Outsourcing</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
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<tr>
<td>The outsourcing of the transportation costs has lowered direct costs</td>
<td>84</td>
<td>1</td>
<td>5</td>
<td>4.2738</td>
<td>.62770</td>
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<td>associated with the transportation such as purchase of vehicles</td>
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<td>The outsourcing of the transportation costs has lowered the indirect</td>
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<td>1</td>
<td>5</td>
<td>3.4524</td>
<td>.98672</td>
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<td>costs associated with transportation such as fleet management, drivers</td>
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<td>etc.</td>
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<td>The outsourcing of the transportation services enables easy access to</td>
<td>84</td>
<td>1</td>
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<td>4.1905</td>
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<td>the transportation services compared if the same had to be purchased</td>
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<tr>
<td>The outsourcing of the transportation enables the cost efficiency in</td>
<td>84</td>
<td>1</td>
<td>5</td>
<td>4.0952</td>
<td>.66981</td>
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<td>the transportation department in tandem with the capacity of the firm</td>
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<td>The transport outsourcing enables the firm to concentrate on the core</td>
<td>84</td>
<td>1</td>
<td>5</td>
<td>3.4524</td>
<td>.88451</td>
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<td>functions leaving any risks associated with the management of the</td>
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<td>transport to the outsourced company</td>
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Valid N (listwise) 84

In this context, the standard deviations of lowering of direct transport costs, lowering of indirect transport costs, easy access to transportation compared to vehicle purchases, cost efficiency, and concentration on core functions had standard deviations of .62770, .98672, .71937, .66981, and .88451 respectively. The responses were only moderately distributed as the standard deviations were within 0.5<σX<1 bracket.

VII. Conclusion

The research hypothesis for the transport services outsourcing was as below;  
H01: There is no significant statistical relationship between outsourcing transportation services and performance of procurement function among tea firms in Kericho County The relationship between the transport services outsourcing and performance of procurement function is statistically significant that is r=0.567; p=0.000< 0.05. The null hypothesis was therefore rejected.
Influence of Business Processing Outsourcing Practices on Performance of Procurement Functions ..

Table 3: Transport Services Outsourcing

<table>
<thead>
<tr>
<th>Transport</th>
<th>Pearson Correlation</th>
<th>Performance</th>
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<tr>
<td></td>
<td></td>
<td>.567</td>
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<td>Sig. (2-tailed)</td>
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<td>N</td>
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<td>84</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

VIII. Recommendations

The study recommends that the tea firms should place emphasis on the transport services outsourcing with a view of improving their performance.

References


