



## The Influence of Political Environment on the Performance of Business Process Outsourcing Sector in Kenya

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### Abstract

The purpose of this study is to establish the influence of the political environment on the performance of the Business Process Outsourcing Sector in Kenya. The study covered all the 118 registered business process outsourcing companies in Kenya. Descriptive and inferential statistics were used in this study. The descriptive results indicate that the political climate in Kenya has not been conducive to the business process outsourcing sector. The inferential results indicated that the political environment had a statistically significant influence on the performance of the business process outsourcing sector in Kenya. The study, therefore, concludes that a conducive political environment is vital for the business process outsourcing sector to thrive. The study suggests that the government ought to consider developing and implementing measures and policies that will ensure a conducive political environment to enable BPO companies to thrive.

**Keywords:** Political environment; Business process outsourcing; Performance; Kenya.

## 1. Introduction

The dynamic global trends have resulted in a competitive and turbulent business environment, driving organizations to seek strategies to keep them afloat. One of the strategies adopted by organizations to remain competitive is outsourcing. This has in turn, created business opportunities for Business Process Outsourcing (BPO) companies who provide the services to the outsourcing firms. BPO involves the transfer of responsibility from an organization to a service provider (Sople, 2016).

Organizational performance is influenced by both internal and external environments. The internal environment comprises of the elements that are within the control of the organization, which includes plans, policies, human resources, financial resources, corporate image, plant, and machinery. The external environment is comprised of a macro environment, which is the organization's immediate environment. This environment affects its performance but cannot control it. The elements in this environment include political, economic, social, technological, and legal environments (Kalpana, 2015). These elements form the PESTEL framework, which is used in strategic management to group macro-environmental elements. It is used by strategists look for sources of general opportunity and risk in which fundamental changes in them may lead to the transformation of organizations (Witcher and Chau, 2010). This study considered the political environment, which involves government decisions that support or impede organizational performance.

### 1.1. Statement of the Problem

Business Process Outsourcing is one of the six priority sectors in the economic pillar of the Kenya Vision 2030. The vision envisages that the country becomes the top business process outsourcing destination in Africa. However, this has not been achieved since other countries that include South Africa, Ghana, Morocco, and Egypt have been more preferred destinations than Kenya (Wachira *et al.*, 2016). Statistics have also shown that the global destination position for Kenya has deteriorated. Kenya's dismal performance at the global arena has been brought out clearly through global assessment framework for global outsourcing destinations by Tholons, a consulting company based on the cost of doing business like bandwidth costs, business catalyst/ environment, infrastructure like transportation and internet connectivity, innovation like government incentives and risk profile like political risks (Tholons, 2017). Kenya retained position 97 out 100 as a BPO destination globally in 2014 and 2015 consecutively (Tholons, 2015). In 2016, Kenya dipped from position 97 to 98 out of 100 as a BPO destination based on the cost of doing business, business catalyst/environment, infrastructure, innovation, and risk profile (Tholons, 2016). Therefore, Kenya and by extension, the BPO companies which are the players in the industry has not become the top Africa destination as envisaged by the Vision 2030. This has been reflected by Kenya's tail-end performance in the annual global assessment frameworks. Recent empirical studies in this area have emphasized on the internal environment of the

organization as the one that influences the performance of BPO companies (Gatheru, 2017; Gitau, 2014; Lacity *et al.*, 2014; Mann and Graham, 2016; McIvor, 2016). Hence, this study would fill the gaps by considering the macro environment and specifically establish the influence of the political environment on the performance of BPO companies.

## 1.2. Objective of the Study

To investigate the influence of the political environment on the performance of BPO companies in Kenya.

## 2. Review of Literature

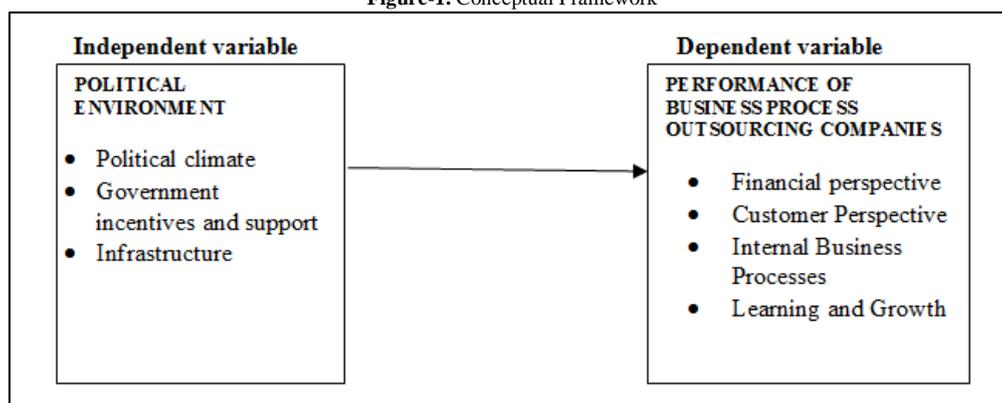
The study adopted the open systems theory developed by Katz and Kahn (1966). The theorists viewed the organization as an open system that takes in resources from its external environment and transforms them into goods or services that are sent back into the environment. The organization, therefore, interacts with the external environment to survive (Foster, 2016). The organizational change depends on the strategic analysis of the environment and these changes are used to propel organizational growth and development. Political environment involves government decisions that support or impede organizational performance.

The literature on the political environment suggests that it influences organizational performance positively or negatively. Several studies reinforce the positive influence of the political environment on organizational performance (Ahmad, 2012; Kithusi, 2015; Watende, 2014). These studies have made it evident that the political environment may promote the performance of an organization. Ahmad (2012) established that a favorable political environment in Saudi reduced the uncertainty to organizations thus promoting their performance with recommendations that the study is replicated in other service sectors other than the health sector, which this study intends to do for the BPO industry. To affirm a proposition (Kithusi, 2015) found that favorable political stability at the time of the study in Kenya, influenced the availability and access to requisite resources thus resulting in optimum firm performance. The researcher recommends that similar studies be replicated in other medium and small enterprises to establish whether similar results can be obtained. Another study that supports this positive influence is that by Watende (2014) that established that favorable political climate and political stability in the markets where the organizations exported their services, contributed to their satisfactory performance. The study recommends that similar studies be carried in service sectors with a bigger sample since the sample size was 28 organizations. This study considered a larger number of organizations, 118 companies in number.

Some other literature reveals the negative influence of the political environment on organizational performance (Mark and Nwaiwu, 2015; Ridwani and Primiana, 2015). Ridwani and Primiana (2015), resounded the proposition in the study on the performance of Indonesian organizations by establishing that unpredictable political climate resulted in uncertainty and thus adversely affecting the performance. The study recommends the need for the government to make the political terrain stable and eliminate violence to enable business growth and development. This proposition was retaliated by Mark and Nwaiwu (2015), where they established that political instability and violence negatively affected the organizational performance. The study recommends that the political environment needs to be addressed for firms to optimize their performance. Other studies that specifically focused on BPO organizations established that the performance of BPO organizations was negatively affected by taxes, weak incentives, and inadequate government support (Gitau, 2014; Kagume, 2015; Njuguna, 2010; Wathigo, 2012). The studies recommended further research on the role of government on the growth of BPO sector in Kenya, a similar study on factors affecting the growth of BPO firms in other countries and studies to determine government incentives that can propel the growth of BPO sector respectively.

The political environment affected the organizational performance in diverse ways in these studies due to the political aspects considered, the difference due to the country, sector, and the types of firms under the study. Other studies had very small samples that may not be representative of the area under study, whereas this study use census on all the registered BPO companies. The research design used by many is descriptive and case study while this study used mixed-method research. This study, therefore, builds on the findings of these studies to establish the influence of the political environment on the performance of BPO companies.

Figure-1. Conceptual Framework



### 3. Research Methodology

The study used a mixed research approach since both quantitative and qualitative data were collected. A cross-sectional survey was used since the data was at one point in time. The research design is intended to produce statistical information on the political environment and performance of the BPO sector for use by policymakers. Quantitative data was analyzed through descriptive statistics, which are arithmetic mean, and standard deviation. Inferential statistics used include analysis of variance and regression analysis, were also used to determine the relationship of the variables.

To test the hypothesis, regression analysis was used to test the significance of the influence of independent variables on the dependent. The regression model used is as follows:

$$y = a + \beta_1 X_1 + e$$

Where,

y= Performance of Business Process Outsourcing companies in Kenya

a=Constant

$\beta_1$ = Beta coefficient

$X_1$ = Political environment

e= error term

#### 3.1. Population

The target population was the 118 BPO companies in Kenya registered with Kenya Information Technology and Outsourcing Services. A Census survey was carried out on all the 118 companies and the target respondents were the heads of marketing departments. The questionnaires were administered to 106 respondents who were heads of marketing departments from 106 companies. This was exclusive of 12 companies that had been used for pretesting the research instrument. 89 questionnaires were filled and returned. This formed a response rate of 84%, which was considered a representative sample for further analysis. [Babbie \(2004\)](#), recommended that a 60% return rate is good and a 70% return rate is very good. This is also supported by [Kothari \(2011\)](#) that a response rate of 70% and above is very good. Similar studies on BPO companies by [Gatheru \(2017\)](#) had a response rate of 53% while [Gitau \(2014\)](#) had 80%. Therefore, the response rate of 84% was considered adequate for analysis.

#### 3.2. Research Instrument

Questionnaires were used to collect primary data from the respondents. The research questionnaire had five scales of Likert-type items. The study assumed that Likert-type data have equidistant so that parametric methods of data analysis are used. The study adopted the criterion by [Carifio and Rocco \(2007\)](#) which shows that when using a five-point Likert scale the following is the scoring; Strongly Agree (SA)  $1.0 < SA < 1.8$ ; Agree (A)  $1.8 < A < 2.6$ ; Indifferent (N)  $2.6 < N < 3.4$ ; Disagree (D)  $3.4 < A < 4.2$  and Strongly Disagree (SD)  $4.2 < SD < 5.0$ . A similar study by [Mburugu \(2015\)](#) used the same scale successfully.

Pretesting was conducted in twelve (12) BPO companies to determine the reliability and validity of the research instruments. This is 10% of the population as recommended by [Cooper and Schindler \(2011\)](#). The companies used in pretesting were omitted when administering the research instruments during the final study. The study adopted the Cronbach's alpha statistics, which recommend a threshold of more than 0.7 ([Cronbach, 1951](#)). The test results show that Cronbach's reliability coefficients range from 0.740 to 0.891. All the variables, therefore, gave a Cronbach's alpha coefficient of more than 0.7 and thus were retained for further study. To establish the validity of the research instruments, content validity was used. The test determines whether the research instruments measure what it claims to measure ([Oruche, 2014](#)).

The questionnaires were also reviewed by a panel of four academicians and five (5) experts in the field of study. This facilitated the necessary modification and revision of the research instruments to enhance their validity.

### 4. Results and Discussion

The data in this study were analyzed using descriptive and inferential statistics.

#### 4.1. Descriptive Statistics

The section outlines the descriptive statistics of the Influence of the Political Environment on the Performance of BPO Companies in Kenya. Political Environment was measured using three indicators; political climate, government incentive or support, and infrastructure. The results are shown in [Table 1](#).

**Table-1.** Means and Standard Deviations for Political Environment

Type of Political Environment	N	Mean	SD
Political Climate has been conducive	89	3.55	1.10
Government Incentives and Support	89	3.09	0.98
Infrastructure	89	3.40	1.05
Overall Influence of Political Environment on the performance of BPO Companies		3.40	1.04

The results in [Table 1](#) show that the respondents disagreed ( $M=3.55$ ,  $SD=1.10$ ) with the statement that the political climate in Kenya has been conducive for BPO companies. The results also indicate that the respondents

were neutral on the statement that the government has offered incentives and support to BPO companies (M=3.09, SD=0.98). The findings also indicate that the respondents disagreed with the statement that infrastructure has been accessible, conducive, or reliable in Kenya (M=3.40, SD=1.05). Overall, the results indicate that the respondents disagreed that the political environment in Kenya has been conducive for BPO companies (M=3.40, SD=1.04). The findings are in agreement with those of Gitau (2014); Kagume (2015); Njuguna (2010); Wathigo (2012) which established that the performance of BPO organizations was negatively affected by taxes, weak incentives, and inadequate government support.

#### 4.2. Testing of Hypothesis

The objective of the study was to establish the influence of the political environment on the performance of BPO companies in Kenya. The following hypothesis was therefore tested using multiple linear regression models.

H<sub>01</sub>: Political environment does not influence the performance of Business Process Outsourcing companies in Kenya.

The results are presented in Tables 2, 3, and 4.

Table-2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707 <sup>a</sup>	.500	.482	.35355

a. Predictors: (Constant), Political Climate, Government Incentives and Support, Infrastructure

The results in Table 2 show that the coefficient of determination (R<sup>2</sup>) is 0.500 meaning that the model estimated explains 50.0% of the variations in the performance of BPO companies in Kenya.

Table-3. ANOVA<sup>a</sup>

Model		Sum Squares	df	Mean Square	F	Sig.
1	Regression	10.611	3	3.537	28.296	.000 <sup>b</sup>
	Residual	10.625	85	125		
	Total	21.236	88			

a. Dependent Variable: Performance of BPO Companies in Kenya

b. Predictors: (Constant), Political Climate, Government Incentives and Support, Infrastructure

The results of the Analysis of Variance (ANOVA) indicated in Table 3 shows that the relationship between the independent variables and the dependent variable is significant (F = 28.296, sig <.05). This reveals that the political environment variables significantly affect the performance of BPO companies. The political climate, government incentives and support, and Infrastructure are therefore statistically acceptable as useful in predicting the performance of BPO Companies in Kenya.

Table-4. Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.350	.175		13.393	.000
	Political Climate	-.829	.105	-.829	-7.911	.000
	Government Incentives and Support	.210	.047	.383	4.446	.000
	Infrastructure	.228	.057	.447	3.968	.000

a. Dependent Variable: Performance of BPO Companies in Kenya

The results in Table 4 provide the coefficients of the variables used in the study. The regression equation model in this study is as shown in equation 1.

$$Y = 2.350 - .829X_1 + .210X_2 + .228X_3 \dots \dots \dots \text{Equation 1}$$

The findings indicate that the constant term is 2.350, implying that holding the variables under consideration to zero, could result in 2.350 units of returns to BPO companies. This could be due to other factors not considered in this study. The regression coefficient for the political climate is (-.829, p<.05), this indicates that holding other independent variables to zero, an increase in political climate variable by 1 unit results in a decrease of 0.829 units on returns. This implies that the political climate in Kenya is not conducive to the BPO companies and thus it negatively affects their performance. The coefficient for government incentives and support is (.210, p<.05). This indicates that holding other independent variables to zero, an increase in government incentives and support variable by 1 unit results in a decrease of 0.210 units on returns of BPO. It implies that when the government grants incentives and support to BPO companies, their performance is improved.

The coefficient for infrastructure is (.228, p<.05). This indicates that holding other independent variables to zero, an increase in infrastructure variable by 1 unit results in an increase of 0.228 units on returns of BPO. It implies that the improvement of infrastructure in Kenya positively influences the performance of BPO companies.

## 5. Discussion

The results reflect that the political environment significantly affects the performance of BPO Companies in Kenya attributing up to 50% of its variation in performance. This means that the prevailing political environment could negatively influence the performance of BPO companies in Kenya given that the descriptive results indicate that the political environment is not conducive. The inferential results also show that the constant term for political environment is 2.350, implying that holding the variables under consideration to zero, could result in 2.350 units of returns to BPO companies. This could be due to other factors not considered in this study.

The regression coefficient for the political climate is (-.829,  $p < .05$ ), indicating that holding other independent variables to zero, an increase in political climate variable by 1 unit will result to a decrease of 0.829 units in returns. This implies that the political climate in Kenya is not conducive to the BPO companies and thus it negatively affects their performance. The coefficient for government incentives and support is (.210,  $p < .05$ ). This indicates that holding other independent variables to zero, an increase in government incentives and support variable by 1 unit will result to an increase of 0.210 units on returns of BPO. It implies that when the government grants incentives and support to BPO companies, their performance will be enhanced. The coefficient for infrastructure is (.228,  $p < .05$ ). This indicates that holding other independent variables to zero, an increase in infrastructure variable by 1 unit will result in an increase of 0.228 units on returns of BPO. It implies that the improvement of infrastructure in Kenya positively influences the performance of BPO companies.

## 6. Conclusions and Recommendations

This study sought to establish the influence of the political environment on the performance of BPO companies in Kenya. The indicators of the political environment were political climate, government incentive or support and infrastructure. The null hypothesis tested was that political environment does not influence the performance of Business Process Outsourcing companies in Kenya. The findings were  $R^2 = 0.50$ ,  $F = 28.96$ ,  $P = 0.00 < 0.05$ . The null hypothesis was therefore rejected and the study concludes that political environment has a statistically significant influence on the performance of BPO companies in Kenya. The study also concludes that the political climate in Kenya has not been conducive for business process outsourcing sector and thus it negatively affects their performance.

The study recommends that the government ought to consider developing and implementing measures and policies that will ensure a conducive political environment to enable BPO companies to thrive. The study also recommends that a further study be carried to determine the influence political environment on the performance of other sectors in Kenya.

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