

# IMPACT OF OUTSOURCING ON THE PERFORMANCE OF UTILITY COMPANIES IN RWANDA; A CASE OF ENERGY UTILITY CORPORATION LIMITED

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**Abstract:** Outsourcing of some key functions and activities by organizations has increasingly played an important role in their productivity and performance. While some organizations look at outsourcing as the best way to enhance their organizational productivity and financial performance, others consider in-house production as the best option. This study is justified on the premise that outsourcing has become a trending phenomenon in corporate organizations all over the world. Many institutions in Rwanda in the private and public sector too have embraced this growing business phenomenon to deliver a wide array of products and services to enhance their organizational productivity and performance. This variance in the way outsourcing is looked at including diversified expectations from various sectors and institutions has created some academic degree of uncertainty, hence, the need to conduct a study to evaluate the impact that outsourcing decisions may have on the organizational performance. The general objective of this research is to determine the impact of outsourcing of specific and identified functions that would otherwise be carried out internally by the EUCL staff on the performance of the organization in pursuit of fulfilling its mandate and strategic objectives. The population of the proposed research will be 60 employees of the Energy Utility Corporation Limited working in various departments, units or sections. The study makes use of a survey questionnaire and an interview guide for collection of both qualitative and quantitative data. The study was collected by using questionnaire technique and both qualitative and quantitative data analysis used. The researcher used SPSS for data analysis. The overall significance of the regression estimation model. It indicates that the model is significant and explains the relationship between outsourcing and EUCL Performance at 5% level of significance. Results indicate that selling of electricity tokens is the most significant and explains EUCL Performance with a significance level is 0.000 which is less than a p-value of 0.05 and beta value is 0.724. When selling of electricity tokens increases by 1 unit keeping human Resource Functions and Generation Function constant, tokens would increase by 80.2%. The research findings show that outsourcing of some EUCL services has led to reduced operational costs and has also resulted in operational efficiency which translates to increased profits. It is recommended that EUCL should not be contended with the benefits and outsources more services as outsourcing of some services does not yield the expected benefits.

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## 1. BACKGROUND OF THE STUDY

Outsourcing has been one of the major strategies that companies utilize in order to remain competitive in the current dynamic environment. Several organizations and institutions have adopted outsourcing of some of the value chain activities to third parties. This is due to the benefits resulting from such as lower cost, better customer satisfaction and more importantly freeing the management to concentrate on the more strategic issues by ceding the noncore functions to specialized firms Akeshuwola & Elegbebde, (2012).

Chodzaza, Gombachika (2013) and Marshall et al, (2007) asserted that outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers. (James 2011) has argued that outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and strategically use outside vendors to perform service activities that traditionally have been internal functions. There are multiple reasons for outsourcing, of which reducing or controlling operational costs is the leading business driver for outsourcing services, Gulzhanat, T. (2012). Access to skills and technology of the service provider and thereby access to innovation is an interesting intended benefit of outsourcing, Gulzhanat, T. (2012).

Thoroughly examining the motivations, expectations, and justifications for outsourcing critical operations functionality enables organizations to make effective decisions which generate incremental profitability and shareholder value, Rundquist (2007). Careful consideration and analysis of cost factors, financial impact, and suitability for outsourcing yields superior outsourcing strategies and transition plans. Outsourcing ultimately requires trust. Rundquist (2007) noted that handing over various aspects of business operations to a partner can be difficult for organizations that do not typically view their suppliers as cooperative partners. Several studies on outsourcing, Plunkett (2008) have all confirmed that outsourcing is a business strategy in which one or more of a company's business process is contracted out to an outside service provider with the intention of reducing operating cost and focusing on core competencies of the firm. In today's business environment it is important for most organizations to identify their core business competencies and focus on these for their performance. This can assist organizations in outsourcing services to achieve the desired objectives.

Despite the fact that outsourcing of services has a lot of benefits, there are also challenges and risks that are related to the outsourcing of services such poor management of the outsourced contracts, overdependence on an outsourced service provider, employee morale problems, loss of corporate (core) knowledge and future opportunities, and unrealistic expectation from both parties in the outsourcing contract. All these challenges hinder the achievement of value for money in public institutions. Service outsourcing is becoming a dominant practice among African countries as it enables the institutions to direct their resources and focus on core activities.

In East Africa, Kenya is one of the countries that have kept a high emphasis on outsourcing. Kenya's government for example lists business process outsourcing (BPO) as a major economic building block in their Vision 2030, Society for International Development, (2010). The business process outsourcing and off shoring sector is small and new in Kenya, contributing only 0.01 per cent of GDP and engaging about 1,000 employees. The sector is also expected to become the sector of choice for employment among the youth and young professionals. The goal of the BPO sector is to create at least 7,500 direct BPO jobs, Society for International Development, (2010);

In Rwanda, the Rwanda National Export Strategy (RNES), has embraced outsourcing in general, and has specifically put emphasis on Business Process Outsourcing (BPO), which is defined as the contracting of specific business tasks to a third-party service provider. It includes ICT, financial and other outsourcing activity. BPO is an industry that creates knowledge-based employment, which aligns with Rwanda's strategic document, Vision 2020. A domestic BPO industry can help reduce the trade imbalance, create non-agriculture based employment, and infuse innovation and productivity into several local sectors. BPO will also support economic growth through the integration of Rwanda with local, regional and international networks. It is in this regard that Energy Utility Corporation Ltd (EUCL) has outsourced some of its business activities such as selling of electricity tokens through super dealers as a way of up scaling their performance and bringing their services closer to its customers. To date, EUCL has close to one million postpaid and prepayment customers

According to the National ICT Strategy and Plan (2015), outsourcing of help-desk services, desktop management, data-center services, and on-the-spot support services are on the rise. It is creating new job opportunities in the IT industry, stimulating the need for progressive and innovative strategies to connect employees from continent to continent. Nelson Hall, a global outsourcing research firm, estimates global demand for business processing outsourcing (BPO) services at \$250 billion annually and it is projected to increase to \$750 billion by 2020. Demand for BPO services in Rwanda is estimated at \$50 million, which will increase to almost \$200 million by 2020 with regional market potential predicted to be \$1900 million in 2020.

Furthermore, Energy Sector Strategic Plan (ESSP), (2015) puts more emphasis on the private sector engagement and asserts that; an unprecedented degree of investment will be needed from the private sector in order to better align energy

supply with demand growth. The private sector will play a pivotal role in delivering many of the areas described in the ESSP, particularly in the electricity supply and off-grid energy access sub-sectors. It is against this background therefore that EUCL, with the support from the Rwanda Development Board (RDB) instituted and implemented the GOR directive to lease out some of the small hydro power plants to the private Independent Power Producers (IPPs). These generate and sell power to EUCL under the Public - Private Partnership (PPP) laws in place. To remedy the energy part of the problem, the government leased out 22 micro-power projects to seven private investors. The private investors will rehabilitate, operate and maintain the facilities for 25 years to boost energy supply. Seven of these plants are already operational while another 15 will be built from scratch. This deal between the government and the private entities comes at a time when energy prices have increased to ensure the investment made in generation is recouped through utility sales, should be motivation enough for the investors.

This research proposal is therefore prepared with the aim of conducting a study that will evaluate the impact of outsourcing some core functions that EUCL should be carrying out on its own on its overall performance and its quest to fulfill its mandate.

## 2. STATEMENT OF THE PROBLEM

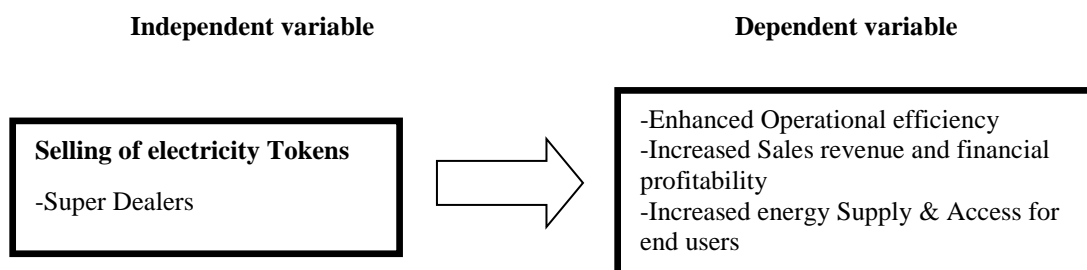
Over the last couple of years, EUCL, formerly known as EWSA has been in the public spot light as result of the Auditor General's report and cases of inefficiencies have been identified in regard to some work that was being done internally by the staff and incompetence gaps recognized. The problematic areas identified include, the use of casual labors (Human resources, commonly referred to as 'Man power') for electricity connections for EUCL clients, selling of electricity tokens, commonly known as cash power to the public, under capacity generation of power from existing power plants and diversified power sources among others. A lot of inefficiencies were noted during the audit such as payroll management especially for the man power/casual labors, mismanagement of the selling process for the cash power tokens, high maintenance costs for some of the power plants, poor service delivery regarding connections among others. Over the years, all these have had an impact on the financial and non-financial performance of the EUCL

Subsequently, the Board of Directors for EUCL, or EWSA as formerly known, in 2007 took decisions aimed at not only improving the performance of the organization, but also the reputation of the organization before its internal and external stakeholders. Outsourcing decisions were made and strategies put in place in view of improving the efficiency and effective performance of the organization. As far as corporate strategy is concerned, this decision may always have a positive or negative impact on the organization's performance and financial position in the long run. While some organizations look at outsourcing is the best way to enhance the financial performance of an organization, others say in-house production is the best option. This has created some academic degree of uncertainty, hence, the need to conduct a study to evaluate the impact that outsourcing decisions may have on the performance of EUCL.

## 3. OBJECTIVE OF THE STUDY

- i. To examine the impact of selling of electricity tokens on the performance of EUCL.

## 4. CONCEPTUAL FRAMEWORK



## 5. RESEARCH DESIGN

The researcher was adopted the use of both qualitative and quantitative approaches to research. The qualitative approach was consisted of the use of words and descriptions in investigating the research problem. The study was specifically undertake the following activities in order to achieve stated research objectives; Identify persons in the target institution

under study who was provide data for the study; Design questionnaires and interview schedules to collect adequate data relevant to answering research questions and study objectives.

## 6. TARGET POPULATION AND SAMPLE SIZE DETERMINATION

The sampling frame for any probability sample is a complete list of all the cases in the population from which a sample is drawn, Saunders et al., (2007). From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. A sample is a smaller and more accessible sub set of the population that adequately represents the overall group, thus enabling one to give an accurate (within acceptable limits) picture of the population as a whole, with respect to the particular aspects of interests of the study. For this study simple random sampling was used to select sixty (60) employees of the EUCL working in the Procurement, Human Resources, Information and Communication Technology, Finance, Power Generation and Commercial Departments.

## 7. DATA COLLECTION INSTRUMENTS

The researcher was used two data collection methods that is, both primary and secondary data collection methods. The researcher was secured a research permit and authorization letter from the EUCL before proceeding to the field for data collection. The researcher was personally visit the target population at various sites within the EUCL network of branches and operation sites and was administer the questionnaires and used the interview guide on a few selected staff at senior and middle management level to collect raw data. The researcher was later scrutinized and analyzes any relevant documents to ascertain their credibility, such as financial statements and annual reports.

## 8. RESEARCH FINDINGS AND DISCUSSION

**Table 1: the impact of selling of electricity tokens on the performance of EUCL**

Statements	1	2	3	4	5
1 Selling of electricity tokens has influenced the financial performance of EUCL through increased sales revenue from energy sales and profitability.	-	-	-	-	100%
2 Selling of electricity tokens through super dealers has helped EUCL bring its services closer to its current and future customers	-	-	-	2%	98%
3 Selling of electricity tokens through super dealers has led better and improved customer satisfaction to EUCL customers	-	-	-	13%	87%

The above Table 1 shows the perception of respondents on the impact of selling electricity token on the EUCL performance. Selling of electricity tokens has influenced the financial performance of EUCL through increased sales revenue from energy sales and profitability as appreciated by 100%. 2% and 98% of respondents were strongly agreed and agreed on the impact of selling of electricity tokens through super dealers has helped EUCL bring its services closer to its current and future customers. Governance reforms that distinguish between the separate roles of policy making, regulation, ownership and management of utilities influenced the EUCL performance in 3 previous years. 13% and 87% of respondents are strongly agreed and agreed on how selling of electricity tokens through super dealers has led better and improved customer satisfaction of EUCL and it performance.

While reforms often result in improved utility performance and lower costs, the power sector reform is typically associated with price decreasing aimed at making the utility more financially sound. In order to attract private investors, most reform programs have included measures to increase tariffs to cost reflective levels, accounting for inflation and market risks, and reducing across the board subsidies.

### 8.1 Regression analysis of Selling of electricity Tokens

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.437 <sup>a</sup>	.706	.641	252

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.437 <sup>a</sup>	.706	.641	252

a. Predictors: (Constant), Selling of electricity Tokens

Table 2 presents the coefficients of model fitness on how selling of electricity Tokens explains performance of EUCL. The profitability has an overall correlation with outsourcing of 0.706 which is positive. This means that 70.6% of Selling of electricity Tokens contributed to the performance of EUCL Rwanda. The rule of Thumb is that, usually an R square of more than 50% is considered as better. This study proves the rule of Thumb the R<sup>2</sup> is (0.743).

**Table 3: ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	27.612	1	4.251	5.135	.001 <sup>a</sup>
	Residual	.752	58	.010		
	Total	33.355	59			

a. Predictors: (Constant), Selling of electricity Tokens.

a. Dependent Variable: EUCL Performance

Table 3 shows the overall significance of the regression estimation model. It indicates that the model is significant in explained the relationship between Selling of electricity Tokens and EUCL Performance at 5% level of significance. Analysis of Variance shows that f-calculated is greater that f – critical that is 5.135>0.01.

**Table 4: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.152	.081		1.728	.031
	Selling of electricity Tokens	.802	.064	.052	1.631	.000

a. Dependent Variable: EUCL Performance

From table 4., the regression model therefore becomes:

$$Y=0.152+0.802x_2+\varepsilon$$

On table 4 the regression coefficients of the predictors (Selling of electricity Tokens) is presented. Results indicate that selling of electricity Tokens is the most significant explain EUCL Performance with a significance level is 0.000 which is less that a p-value of 0.05 and beta value is 0.802. When selling of electricity Tokens increase by 1 unit keeping human Resource Functions and Generation Function constant, token would increase by 80.2%

## 9. CONCLUSION

The research findings show that outsourcing of EUCL services in Rwanda has led to reduced operational costs and has also resulted in operational efficiency which translates to increased profits. In conclusion, the study found out that outsourcing leads to effectiveness in service delivery, promotes efficiency, improves operational performance, allows effective allocation of resources in addressing customer needs, enables the organization to strategically procure services that serve the needs of the customers directly and aiding the company to focus on its cores competencies.

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance, however it is essential that the right employees are selected based on past performance, competence, cost, flexibility, right time, qualification, professionalism, experience, reputation right quality of service as these will enable the company to get the most from outsourcing of business functions and eventually lead to closer ties and relationships. The study established that the performance of the EUCL was affected by various factors which include Human Resource Functions, Selling of electricity Tokens and Generation Function.

## 10. RECOMMENDATIONS

The study found out that EUCL performance was affected by 3 factors resulting from the outsourcing process and it is recommended that the EUCL should have a formal outsourcing process so that they can make decisions which would result to management of risks and securing added value and continuous improvement. The study established that the company faced risks such as loss of command of outsourced service, over reliance of external parties, loss of confidentiality, loss of control in decision making, limited flexibility, low quality work and limited time. It is therefore recommended that the organization should put all measures in place to ensure that they do not face severe losses as a result of outsourcing the services. It was found out that EUCL derives benefits which include, increased productivity, core competence focus and strategic flexibility. It is recommended that the EUCL should not be contended with the benefits and outsources more services as outsourcing of some services does not yield the expected benefits.

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