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Outsourcing in Africa: How do the interactions between providers, multinationals, and the state lead to the evolution of the BPO industry?

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Abstract

We explore the evolution of Africa's business process outsourcing (BPO) industry. In so doing, we seek to derive policy and managerial implications on how African suppliers can grow and become more attractive to foreign multinational corporations (MNCs). We discuss insights from the literature on (BPO) clusters and how these evolve. Our conceptual arguments are supported by a case study of the evolution of the Kenyan BPO cluster through three broad stages: embryonic, early, and developmental. We argue that this evolution has been hampered by factors including the small and sometimes informal nature of local suppliers, the reluctance of foreign multinationals to make long-term commitments, and the intermittent devotion by the Kenyan government to supporting BPO clusters. Accordingly, we suggest direct and indirect policy initiatives to grow the industry toward a more mature stage, increase knowledge spillovers and formalization levels, and improve working conditions. *Journal of International Business Policy* (2023) 6, 432–452.
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INTRODUCTION

Multinational corporations (MNCs) are starting to recognize the potential of business process outsourcing (BPO) solutions from African suppliers. In areas like IT infrastructure, payroll, tech support, inbound and outbound calls, but also software development and testing, engineering support, and product design (Manning, Kannothea, & Wissman-Weber, 2017), African suppliers attract larger sales volume from multinationals looking for competent and cost-effective solutions. With its high portion of native English and French speakers around the continent, large population, young demographics, favorable time zones, and affordable broadband infrastructure (Ndemo, 2022), several African BPO

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suppliers are also starting to emerge on the global scene traditionally occupied by well-known global providers such as Accenture, IBM, HP, Infosys, Genpact, and HCL.

For example, Addis Ababa-based Gebeya has emerged as one of the continent's most prominent EdTech and job-placement companies and attracts investments from multinationals in diverse activities such as AI, AgriTech, Blockchain, FinTech, Internet of Things, Media Production, Telecom, and Gaming (Startupbrics, 2021). In South Africa, a growing BPO industry has given rise to several successful companies. Examples include AVirtual, which matches start-ups with talent to provide virtual support; Indoxit, which provides BPO services such as outsourced document collection, quality assurance, data verification, data extraction, and call center outsourcing; and Integreon, which provides alternative legal and business solutions through multi-lingual and around-the-clock support (Empower Africa, 2021).

BPO providers typically operate in clusters due to the benefits of being closely located to competitors, knowledge institutions, and customers (Delgado, Porter, & Stern, 2014; Porter, 1990, 2000). However, the existing clusters are still relatively small and underdeveloped, especially in comparison with BPO clusters in South and East Asian locations like Bangalore or Central and Eastern European locations like Krakow on measures such as the scale of the industry, its cost competitiveness, and productivity (Kleibert & Mann, 2020; Mann & Graham, 2016; Melia, 2020). For example, a recent McKinsey report valued the total South African BPO market in 2020 at \$461 million and expected it to grow at around 3% per annum (McKinsey, 2020). The same report placed Kenya at rank 43, Ghana at 45, and South Africa at 49 (with North African countries Egypt and Morocco in 14th and 36th, respectively) among the most attractive BPO locations in the world.

From the perspective of relevant policymakers at the national and regional (e.g., ministries and regional development authorities), pan-African (e.g., the African Union), and global (e.g., the World Bank) levels, growing BPO clusters can be particularly beneficial. For example, the Kenya Vision 2030 explicitly recognizes BPO as “a key sector under the Economic Pillar since it plays a big role in the growth and development of a knowledge-based economy, opening a window for thousands of jobs to unemployed youth in the country” (Republic of Kenya, 2022: 134). Relatedly, the

African Union emphasizes the establishment of a vibrant BPO sector as critical infrastructure to establish “an improved environment for private investment to take place” (African Union, 2008: 44). Indeed, outsourcing can have a direct positive impact on suppliers and their employees (by providing profits and jobs) but also an indirect impact, such as knowledge spillovers, increased firm formalization, and improved working conditions. This ties into what has been called “impact sourcing” (Manning et al., 2017), the notion that activities are sourced from places with the most positive impact on individuals and communities. A deeper understanding of the barriers to growing BPO clusters in Africa further, along with possible solutions for overcoming those barriers, is therefore essential and could assist policymakers, suppliers, and multinationals in developing more effective strategies. Moreover, a more profound comprehension of the dynamics of outsourcing in Africa can contribute to academic theorizing on firms in Africa (e.g., George et al., 2016a, 2016b).

Prior studies have examined how different factors influence the formation and evolution of industrial clusters, including knowledge and innovation (Maskell & Malmberg, 2007), entrepreneurs and firm dynamics (Feldman et al., 2005; Mudambi & Santangelo, 2016), and competition (Porter, 1998). However, there remains a gap in understanding how the interdependencies and interactions between actors evolve through the stages of cluster development (Martin & Sunley, 2011), particularly in the context of the BPO industry in developing countries defined by ineffective formal institutions around business development (Morris et al., 2023). This study addresses this gap by exploring the dynamics of actor interdependence and its influence on the stages of cluster formation and evolution in the BPO industry in Africa. We first discuss what the literature on clusters and industry evolution says about their development, including the role of policy and demand. We then analyze the evolution of the Kenyan BPO industry. This industry has existed for some time, employs roughly 12,000 workers, and has been the subject of sporadic government efforts to stimulate its growth (Melia, 2020). Yet, it has thus far struggled to attract large-scale investments from foreign multinationals and has gone through various spurts of growth and stagnation (Ndemo, 2022).

Our analysis suggests that the Kenyan BPO cluster has evolved through three broad stages: embryonic, early, and developmental (cf. Klepper,

1997). We describe each of these stages in detail and present an “outsourcing triad” – featuring local suppliers, foreign MNCs, and the external host environment – to help us understand how the actions of and interactions between these three actors are essential to understanding cluster growth. We find that key factors such as an educated workforce and competitive cost levels are present in the Kenyan BPO industry. However, the evolution of the industry has been hampered by factors such as the relatively small scale and sometimes informal nature of most local suppliers, the reluctance of foreign multinationals to make large scale investments or set up significant, long-term supplier relationships, and the intermittent attention paid to the BPO industry by the Kenyan government.

Our research advances the academic literature on the evolution of clusters and industries (e.g., Klepper, 1997; Porter, 1990). Our Kenyan case study shows how the dynamics of this evolution play out in an African emerging-market context, where interactions between providers, government, and (foreign) clients are crucial. In such a context, progress within and between stages is not linear but more staggered and shaped by government policy (in contrast to how we would, to a larger extent, characterize developed country industry clusters). We discuss how providers, government, and (foreign) clients are connected by what we will call an ‘outsourcing triad’ and that policymaker can ensure systems integration by identifying the optimal governance and integration mechanisms connecting the different elements in the triad.

Based on this, we formulate several recommendations for policymakers at the national, regional, continental, and global levels on how African BPO clusters can grow and become more attractive (including for foreign MNCs), which we see as the main contribution of this paper. The policymakers for whom our recommendations are most directly relevant are concerned with issues in the United Nations’ Sustainable Development Goals, such as economic growth, decent work, stimulating entrepreneurship, and growing international economic ties. We suggest that the scope for creating a more successful industry that has the potential to make a broader impact on society rests upon the ability to transcend the industry from a developing phase to a more maturing phase. To increase the likelihood of successfully achieving this, we argue that it is pertinent that national policymakers establish an environment that eradicates short-

term obstacles like the absence of decent working conditions and the lack of proper standardization schemes. In the long term, policymakers need to provide environmental stability for local suppliers and foreign multinationals to refine and standardize their services. At a regional level, we suggest policymakers embrace the responsibility of systems integrators to ensure a viable environment for the range of actors central to the BPO industry in Africa. With the ratification of the Africa Continental Free Trade Area (AfCFTA), the coalescence of digital skills and knowledge transfers will be essential to its success.

THEORETICAL FOUNDATION

The BPO Industry

The global BPO industry gained prominence in the early 2000s as a combination of the digitalization and commoditization of business processes. It can be seen as an extension of earlier outsourcing of standalone activities such as helpdesks (Davenport, 2005). Driven by strategic priorities such as cost, speed, and access to talent (Manning et al., 2015), and aided by new technologies and globalization, client firms across industries, from North America and Western Europe in particular, increasingly outsourced business process tasks such as IT infrastructure, payroll, tech support, inbound and outbound calls, but also software development and testing, engineering support, and product design to specialized service providers operating across the world (Massini, Perm-Ajchariyawong, & Lewin, 2010). By specializing in tasks typically peripheral in client companies, provider firms are often involved in categorizing, standardizing, and modularizing clients’ sub-tasks.

Over time, service providers have become more sophisticated in supplying different service tasks and developing client-serving capabilities (Athreye, 2005; Ethiraj et al., 2005). The adoption of new information and communication technologies led to a gradual “tradeability revolution,” where it increasingly became apparent that service production could be relocated to offshore destinations (Lehdonvirta et al., 2019). This phenomenon became more pronounced in the 1990s when firms began to derive benefits from service offshoring, including reduced labor costs and access to skilled labor. Often, these services were digitized and carried out from a remote location (Kleibert & Mann, 2020). Further, the main models were



outsourcing to an arm's-length service provider and offshoring to a captive subsidiary.

Many service providers are located in emerging economies, especially in established business process offshoring destinations (such as India and the Philippines) in information technology offshoring destinations (like Eastern Europe), and other lower-income regions (including countries in sub-Saharan Africa) (Anwar & Graham, 2022). To reduce coordination costs and better exploit time zone differences, it has also become customary for service providers to develop so-called 'global delivery models' with distributed teams and delivery centers at both client sites and offshore locations (Govindarajan & Ramamurti, 2011; Manning et al., 2015).

BPO Clusters

We explore how African BPO clusters can grow and become more attractive. To achieve this, we draw on two main strands of literature: cluster development and industry evolution. First, in contrast to the dominant share of international business (IB) research on the BPO industry focusing on outsourcing transactions, we are interested in understanding the growth and longevity of BPO industry clusters. In this respect, we draw on Porter (1990, 2000) who produces critical insights regarding cluster development, suggesting in particular in his 'diamond' model that it comes down to four factors and how these interact, i.e., factor (input) conditions, demand conditions, firm rivalry and competition, and related and supporting industries. Moreover, government (public policy) plays an indirect role by shaping all of these factors. For example, using data on the competitiveness of 90 nations, Fainshmidt, Smith, and Judge (2016) find that governance quality has a unique, direct, and interactive impact on how the four key factors interact.

According to this literature, a first important aspect of a thriving BPO cluster is the presence of many BPO supplier firms (providers), each with their competencies and skills, capacity, and cost structures (Manning et al., 2015), as well as rivalry between these firms (Porter, 1990). For example, long-standing literature addresses such professional services firms' establishment, development, and growth (e.g., Løwendahl, 2005; Maister, 1982). King, Lenox, and Terlaak (2005) find that suppliers' certification with the ISO 14001 management standard reduces problems with exchange partners that lack essential information or fear opportunism. In cases of highly asymmetric information,

client firms may find it more challenging to identify and monitor desirable providers, leading to 'selection problems' (Akerlof, 1970). Host locations characterized by suppliers with high information asymmetry, from the perspective of the potential client investor, would be less likely to receive inward investments (King et al., 2005). Therefore, by certifying according to industry standards, suppliers in a given host location can send a strong signal to potential clients that otherwise would have established their facilities in other locations of the respective investment climates. A critical factor in the African context could be whether or not firms are formal, as multinational corporations are less likely to partner with informal firms as suppliers. We note that even if suppliers to multinationals are formal, their suppliers may not be (Narula, 2019), which may affect decisions and outcomes.

Second, an essential part of the success of BPO industry clusters is related to demand conditions, i.e., the behaviors of (multinational) clients. Porter (2000) observes that even during times of globalization, local clusters continue to be an essential part of the economic landscape and increasingly serve customers worldwide. Indeed, MNCs have increasingly offshored and outsourced various activities, including BPO. For instance, Mol and Brewster (2014) observe that subsidiaries of multinationals may outsource more than local firms and argue that search and evaluation costs are the drivers of these differences. In this respect, an essential inquiry in the IB literature relates to the antecedents and outcomes associated with decisions regarding the foreign location of MNE activities (e.g., Alcácer, 2006; Caves, 1996). With a point of departure in work by scholars such as Hymer (1960), Dunning (1980), and Buckley and Casson (1976), the location for foreign investments is treated as a deliberate choice with the primary goal of generating or protecting profits (Buckley, Devinney, & Louviere 2007). Recent reviews have summarized associations between assessments of comparative advantages, expropriation risks, knowledge transfer problems, and location choices (e.g., Kim & Aguilera, 2015; Nielsen, Asmussen, & Weatherall, 2017).

Moreover, the IB literature makes two key points about how the presence and involvement of MNEs, whether as producers or as customers, help to advance industries. First, MNEs are seen as typically more advanced in their practices (Dunning, 1988), allowing them to overcome foreignness liability.

These superior practices spill over to supplier or competitor firms in host environments (Godart & Görg, 2013). Second, association with MNEs helps (supplier) firms in a host environment connect better to international markets through reputation improvements and network effects (Hitt et al., 2006).

Factor (input) conditions are another part of the diamond model. When it comes to the BPO industry, the production of services is mostly a combination of knowledgeable people, electronic devices connected to the Internet, and firm-level operating routines. An essential part of BPO provision is having an educated workforce, including technical knowledge and command of foreign languages. This questions what kind of training these individuals receive, either inside the firm or through school and university-level education. Other factor conditions are the availability and costs of hardware and software and the reliability and speed of Internet connections.

The final factors relate to the presence and strength of related and supporting industries. BPO is an example of a knowledge-intensive business service (KIBS), and related industries include other KIBS, such as knowledge process outsourcing, legal services, or consultancy. BPO also relies on supporting industries, which can be many but include transportation (of workers, for instance) or even the food industry.

Beyond these four factors and their interactions, the impact of the host environment can be seen as the set of local conditions faced by African suppliers and their (multinational) clients and includes a variety of institutions influenced by government policies. In our context, some of the more critical aspects of government policies for multinationals and their suppliers include contract law and its implementation, taxation, the ease with which entrepreneurs can start-up firms and do business, and (political) stability. Indeed, the role of the institutional environment on location choices (including outsourcing decisions) of foreign firms has long been acknowledged both in IB research (e.g., Kostova, Roth, & Dacin, 2008; Holburn & Zelner, 2010; Xu & Shenkar, 2002) and economic geography (see e.g., Rafiqui, 2009; Bosker & Garretsen, 2009; Haakonsson, Jensen, & Mudambi 2012; Faulconbridge & Muzio, 2015). In general, institutions, defined as “humanly devised constraints” or “the rules of the game in a society” (North, 1990: 3), typically refer to formal and informal, relatively stable and embedded, often taken-for-granted sets

of rules, norms, and regulations that enable and constrain interactions, decisions, and exchanges in particular contexts (North, 1990; Helmke & Levitsky, 2004).

In this respect, it is important to acknowledge that weak or deficient formal institutions characterize many African economies (Mair, Marti, & Ventresca 2012; Doh et al., 2017; Gao et al., 2017; George et al., 2016a; Khanna & Palepu, 1997). According to Khanna and Palepu (1997, 2010), the absence or underdevelopment of market-supporting institutions gives rise to institutional voids that constrain economic markets’ effective creation, growth, and functioning. In contrast to economies defined by relatively well-established formal institutions that reduce transaction costs and limit potential conflicts of interest that arise from differential information between transacting parties, such ‘institutional voids’ undermine firms’ ability to operate successfully by hindering or increasing the cost of performing transactions.

In line with the logic behind the diamond model, we emphasize the interactions between the various factors to understand the evolution of the African BPO sector in contexts defined by weak formal institutions. For instance, Goerzen, Iskander, and Hofstetter. (2021) suggest that a host country’s institutions affect the extent to which lead firms in global value chains, which are generally multinationals, can achieve compliance with social responsibility objectives among their suppliers. Similarly, Pascali, Godfrey and Navi (2021) point to how public governance in terms of regional trade regimes, national and regional investment regimes, and labor regimes, in Southern Africa’s regional apparel value chain affect the decisions of private actors to (not) participate in that value chain. As such, not only are we interested in understanding how the actions of multinational corporations, suppliers, and the host environment have defined the BPO industry in Africa but also in understanding how the actions of these actors depend on the decisions of other actors.

Industry Evolution

The other element of our theoretical background relates to understanding how industry clusters evolve. For this purpose, we draw on the literature on “industry life cycles” (e.g., Afuah & Utterback, 1997; Klepper, 1997). The primary focus of this literature is to understand the pattern of industrial evolution over time and specifically how different competitive conditions are represented by the

different phases of an industry's product life cycle (PLC). The literature describes how industries vary systematically over time in areas such as technologies (McGahan, Argyres, & Baum, 2004), innovation (Audretsch & Feldman, 1996), firm population (including entry and exit) (Agarwal, Sarkar, & Echambadi, 2002), and competition (Covin & Slevin, 1990). As Klepper (1997: 168) notes, "the evidence for a broad range of products suggests that many of the features of the PLC are widespread. Output growth tends to decline over time, entry is generally concentrated early, shakeouts are common, early entrants tend to dominate their markets, and product innovation peaks early." Importantly, we believe that different aspects of an industry cluster have idiosyncratic importance at different stages of the cluster's evolution; for instance, it is not hard to imagine that MNCs engage differently with start-up firms as opposed to established BPO providers. It is therefore relevant to explore this evolution and identify key factors that help explain changes in levels of industry maturity.

Most existing industry stage-gate models emphasize three main stages that describe an industry's maturity, and specifically how levels of uncertainty, cost, and ambiguity decrease over time (e.g., Klepper, 1997). First, an *embryonic stage* describes an industry with low market volume and high uncertainty. Products are typically primitive and do not require specialized or sophisticated assets or investments. Many firms will enter the industry and explore different business models and products during this stage. During the *developmental stage*, the market volume grows, and firms start to converge on a dominant design. Consequently, typical product innovation declines while production processes become standardized. Fewer new firms are entering, with an increasing exit rate or 'shakeout' of ineffective firms. Finally, the industry will stabilize in the *maturing stage*, with output growth stagnating and entry declining further. Correspondingly, fewer new and significant innovations, and management and manufacturing practices become more refined and standardized.

Importantly, we believe that the opportunities for spillovers and industrial upgrading grow with the evolution of an industry. Much research explores how underdeveloped countries, industries, and firms can quickly 'catch up' with leading countries in technology, productivity, and innovativeness through collaboration and imitation (Bell & Pavitt, 1993; Lall, 1992; Awate, Larsen, & Mudamb, 2015). For example, Abramovitz (1986)

shows that latecomer 'following' countries have the advantage of leapfrogging the incremental stages of leading countries' innovations and technological achievements. Mudambi (2008) shows how lower value-adding suppliers can learn from higher value-adding clients through global value chain participation and eventually catch up. Relatedly, Peprah et al. (2022) discuss how business models evolve in weak institutional contexts due to imitation from leading firms. As the industry matures, one could anticipate that the opportunities to engage more tightly with higher value-adding firms would rise. Suppliers could attract foreign multinationals through more stable and reliable products and learn about superior technological and management practices and techniques.

In sum, although various studies have examined the evolution of clusters, we argue that there is a shortage of policy-targeted knowledge of how to grow knowledge-intensive business service clusters evolve in contexts defined by weaker formal institutions. To derive specific policy implications on growing African BPO clusters, we posit that an analysis of a concrete African BPO industry is warranted. Specifically, and in line with the literature discussed above, we seek to understand how the interdependencies and interactions between different actors have impacted the stages through which the BPO industry has evolved.

METHODOLOGY

Given the nature of our research question, a qualitative and exploratory research methodology is appropriate for this study. Specifically, we argue that this research design is particularly suitable for exploring the processual nature of industrial dynamics, such as industry cluster evolution. For example, Knight, Chidlow, and Minbaeva (2022) argue that such an approach fits with a nascent stage of theory development and involves inductive theory-building and interpretive sense-making. As such, by combining insights from the strands of literature discussed above with an analysis of the evolution of the BPO industry in Africa, we seek to derive policy implications on how to support the industry's growth further.

RESEARCH SETTING

We present a case study on the Kenyan IT outsourcing industry in the period from 2002 to 2022. We base our data on collected interviews,

documents, and observations. This selection of data collection methods is consistent with a qualitative and exploratory research approach (Knight et al., 2022). In line with the theoretical discussion above, we prioritized the following criteria when selecting a country for this study: (1) that there should be a substantial BPO industry in a sub-Saharan country that (2) it has existed for some time and includes some involvement of foreign multinational firms, and (3) it has been the subject of government efforts to grow the industry. These criteria made Kenya an excellent choice for our study, as it has been regarded as a possible growth destination for BPO (Bryce et al., 2011). In choosing Kenya, we also considered alternative African countries. We observed that those with a sizeable BPO industry are either not based in sub-Saharan Africa (e.g., Egypt) or represent a particular case due to being a middle-income country (e.g., South Africa).

As we show below, the growth in the Kenyan industry has not necessarily been constant over time or without challenges. While Kenya possesses several vital factors necessary to become a viable BPO destination, including price competitiveness, quality infrastructure, and a well-educated workforce, the industry has struggled to attract large-scale investments from foreign multinationals (Business Daily, 2018).

Data

We undertook five interviews in early 2022. Four of these were conducted on location in Kenya, which offered scope for additional direct observations into the operations of the various organizations. The four respondents included a manager with Konza Technopolis; a manager within one of the leading African-owned BPO in Kenya; a serial entrepreneur that has previously established and operationalized call centers in Kenya; and another serial entrepreneur that has set up several IT-based service firms. The fifth interview (with Professor Bitange Ndemo, a renowned scholar and policy expert) was conducted through a video link. We supplemented our interview data with rich secondary sources, including government plans, reports, and previous academic studies on the industry (e.g., Bryce et al., 2011; Kleibert & Mann, 2020; Melia, 2020). The familiarity of two of the authors with the Kenyan BPO industry from previous research experience (that included interviews that still offered relevant insights to this study) further reduced the need to undertake a large number of new interviews.

The interview respondents were selected based on their depth of knowledge in BPO and IT-enabled services to tease out the salient issues. The interviews broadly focused on the industry's evolution and current affairs. We followed a semi-structured approach with themes that included the industry's history, key players, what enables growth, and what barriers firms face. We then used the insights from the literature above combined with the information from the interviews and secondary data to make inferences about the Kenyan BPO sector's evolution and derive more general insights about the African BPO industry (Yin, 2003).

In the following section, we first provide a general picture of the Kenyan BPO industry. We then discuss the different stages of the industry's evolution while emphasizing the actions and interdependencies of the relevant factors supporting industry evolution. Finally, we use the information from the analysis to speculate on the policy implications for how the African BPO industry can grow and become more attractive to foreign MNCs, as well as provide more indirect benefits from knowledge spillovers and higher formalization levels and improved working conditions.

The Evolution of the Kenyan BPO Industry

We recognized three broad phases in the evolution of the Kenyan BPO industry (see Table 1), wherein each public policy has had a significant impact. These phases are similar to those identified by Klepper (1997) but differ in one crucial respect, as we did not identify a final maturing phase in the Kenyan BPO industry. The first phase, which we labeled the *embryonic* stage, started around 2007 when a fiber-optic Internet cable was established between Kenya and Dubai and provided enormously improved speed and reliability of Internet connections in the country. A governmental policy paper in 2007 named the BPO industry as a significant focus area for development up to 2030. One specific policy initiative at this stage was the Konza Technopolis, a new "smart city" outside of Nairobi. Thus, the government acted as a major facilitator in this phase that saw the emergence of providers like Techno Brain and Guru.com and the initial arrival of multinational clients, including Airtel and IBM. Towards the end of this phase, a combination of external factors, including the impact of the 2008 global recession and a change in the new US Obama government stance on outsourcing, somewhat dampened foreign demand.

Table 1 Overview of key events and decisions by types of actors and stages of development of the industry

	Embryonic (2007–2012)	Early (2013–2016)	Developmental (2016–)
Providers	Domestic Guru.com, odesk.com, elance E-Business (Preciss International) Kencall Skyweb-Evans Kenya BPO and Contact Centre Society Outsourcing Kenya? Fusion Communication System	Impact Sourcing Africa Lance Alexander Communication LTD Oasis Outsourcing Kenya Accurate Africa eServices Ltd. (AQ8)	Rapidtech Digital Solutions TeleSky Limited Ideon Limited Acorns VoicesAfrica Emez JIT Solutions Kenya Information Technology and Outsourcing Services (KITOS) ADEC Kenya
	MNC Techno Brain BPO (acquired KenTech Data) Horizon Contacts Centre Direct Channel Simba Tech Kenya and Spanco Raps Kenya Ltd., Adept General Electric Accenture Development Partnerships Daprom Africa (StepWise Inc.) C&R Group (Barclays Advisory & Registrars Services (BARS))	Digital Divide Data (Impact Sourcing) Samasource (Impact sourcing) iSON Xperiences Establishment of an IBM Research Lab in 2012. Equipment suppliers (local and international, Training institutions (e.g., software incubation center, colleges for BPO training, and IT training institutes).	
Clients	Domestic Orange (currently Telkom) Kenya In-house contact center operations (e.g., Safaricom Jambo Contact Centre, Kenya Commercial Bank, Barclays Bank, and Co-operative Bank of Kenya) Airtel Africa; Essar Telecom Kenya Limited (yu), Google; IBM Global recession spurred protectionist policies by different countries leading to change of strategy towards the end of this phase	Reorientation towards domestic clientele Discourse on BPO towards modernizing, digitizing and increasing efficiency of Kenyan organizations Impact Sourcing	Government Digital Talent Programme Automation of government services Automation of tax filing Shift from BPO to ITES Impact Sourcing

Table 1 (Continued)

	Embryonic (2007–2012)	Early (2013–2016)	Developmental (2016–)
Government Policy	<p>Policy paper naming BPO favorably Kenya ICT Board, a government agency launched and marketed a “Kenya BPO Value Proposition”</p> <p>McKinsey Report commissioned to develop a strategy on BPOs.</p> <p>The Kenya Communications (Amendment) Bill, enacted into law in January 2009</p>	<p>New Political government in place Kenya ICT Board had changed its mandate from promoting BPO to promoting ITES. Subsequently, policy paper to encourage and develop the business process outsourcing and IT-enabled services (BPO/ITES)</p>	<p>The Presidential Digital Talent Programme (PDTP) takes fresh and qualified ICT graduates through an internship program designed to build their ICT capabilities, ready for the ICT market</p> <p>In partnership with KITOS, creation of a platform that enables robust and sustainable growth in the Kenyan Information Technology and IT Enabled Services (IT & ITeS) sector</p>
Infrastructure	<p>Arrival of Internet fiber-optic cable. These were SeaCom, TEAMs and EASSy National Optic Fibre Backbone Initiative (NOFBI) Phase 1, 2007 funded by Government of Kenya and the Chinese Government (funding);</p> <p>Arrival of Lion-2 cable in 2012</p>	<p>Konza Technology City BPO park at the Athi-River Export Processing Zones</p> <p>KenInvest for investment promotion</p> <p>Brand Kenya Board for international marketing</p> <p>Communications Commission of Kenya in registering call center and BPO operators</p>	<p>Continuation/Completion of NOFBI Phase 2, started in 2014 funded by Government of Kenya and the Chinese government funding</p> <p>Arrival of Djibouti Africa Regional Express 1 (Dare 1)</p> <p>Arrival of the Pakistan and East Africa Connecting Europe (PEACE) cable</p>

In the second phase, from 2013 onwards, which we labeled the *early* phase, there was a change of government and a shift in focus from BPO to IT-enabled services (ITES) more broadly. During this stage, BPOs/ITES became seen more as a way to improve Kenya’s domestic efficiency. These efforts included services to local firms such as insurance and financial companies. Similarly, during this time, physical infrastructural activities that included work on the Konza initiative slowed down, and no actual building activities occurred.

The third phase, which started around 2016 and we labeled *developmental*, saw the emergence of new providers such as RapidTech and Telesky. Multinational clients continued to play a significant role in the Kenyan BPO industry. For example, during one of our interviews, at the provider firm Techno Brain, it became clear how the company had learned new skills from working with one of its foreign customers, a U.S. law firm. Techno Brain also works extensively with foreign multinationals that have subsidiaries in Kenya, such as Total Energies, Multichoice Africa, and even United Nations Agencies, amongst many others. Since 2016, there has again been some positive change in political goodwill concerning the Konza initiative. As a result of this positive change, the initiative has, in recent years, regained impetus, and there is currently extensive ongoing infrastructural development at Konza. However, at the time of the interviews in early 2022, companies were yet to move in. At this time, there was an impending election and our respondents had somewhat varying views of what might happen to Konza after the election. At the end of 2022, Kenya had general elections ushering in the William Ruto Administration. Initial policy statements by the top officials in the new administration indicated that they were likely to support the industry amongst other electoral pledges they had made. Indeed, the chief executive officer of KOTDA was promoted to principal secretary in charge of the State Department of ICT and Digital Economy in the new administration. Thus, the supportive policy is expected to continue. Subsequently, the Kenya government has committed to digitizing over 5000 public services, which will spur digitization efforts in the country.

More broadly, however, it remains unclear whether the Kenyan BPO industry will be able to move to the next, more mature stage. Thus, the overall picture emerging from our case study is an industry that has been somewhat successful but not nearly as much as once envisioned. Therefore, an



immediate policy task is to understand how the industry can continue evolving to a more mature stage. With this broad sketch in mind, we now turn to the specific stages.

Embryonic stage

At the turn of the century, legislative changes liberalized the Kenyan telecommunication industry. As a result, the regulator's functions were separated from other players' functions in the industry in Kenya (Munyua, 2016; Mureithi, 2017). Shortly after that, in 2002, a Mwai Kibaki-led administration with dreams and aspirations of renewed economic growth was formed. At this stage, there was a sustained demand for economic growth to accommodate the growing pool of university graduates, diminish Kenya's dependence on primary commodities and create export earnings to address the country's external debt situation. Similarly, much small-scale BPO was already taking place, and incidences of Internet cafes and home-based activities that took on piecemeal work obtained from online outsourcing platforms were common.

As early as 2002, a two-person operation was doing online research jobs for foreign clients, and by 2006 it had formalized and changed its name to Preciss International while having grown its staff to 17 people and engaging in a more comprehensive range of online tasks. Likewise, in 2005, the first home-grown formal BPO, Kencall, was established in Kenya. Despite infrastructure and setup challenges, it mainly sourced its work internationally, including poor-quality connectivity. Subsequently, several other BPO providers, like Horizon Contact Centers and Techno Brain were established locally.

These developments generated a broader interest in BPO, and the industry appealed to the Kibaki administration due to its potential to create jobs and be a key export earner (Mann & Graham, 2016). Eventually, in 2007, the government named BPO as one of its six pillars of economic growth in its 'Vision 2030', a national development blueprint that sought to transform Kenya into a middle-income country by 2030 (Republic of Kenya, 2007). Kenya's competitive advantages to attract foreign investments included Kenyans' neutral English accents, a favorable location, and a plentiful supply of young university graduates. In addition, its traditional international markets were primarily the United States and the United Kingdom, among the world's largest economies. These advantages, therefore, meant that Kenya could become

competitive in call center and customer service work. As a result, a lobby group called the Kenya Contact, and BPO Society was established to take care of the call center and BPO interests.

However, at this time, Kenya (like its East African neighbors) was not connected to the global fiber-optic grid, and local demand for information communication technology (ICT) access and use was still deficient (Graham & Mann, 2013). The lack of fiber connectivity implied that Kenyan companies were paying as much as \$1,700 per unit for their monthly bandwidth. This placed them at a cost disadvantage compared to the Indian and Filipino BPOs paying as little as \$250 per unit. Hence, Kenya did not immediately look commercially feasible as a BPO destination. Bold efforts by the government subsequently fast-tracked the investment in a fiber optic grid that saw the following changes in quick succession. First, Sea-Com, a privately owned cable dominated by investment from South Africa, landed in 2009, followed soon after by EASSy, a public-private partnership between predominantly South African private investors and development financial institutions. Moreover, TEAMs (The East African Marine System) landed in 2010. TEAMs was a Kenyan government-led partnership with Kenyan internet service providers (ISPs) and the UAE-based company Etisalat. Finally, in April 2012, a fourth cable, Lion-2, came online. The landing of the undersea fiber optic cable into Kenya was transformational and made the Internet locally reliable and drastically lowered the cost of broadband in Kenya and the region (Graham & Mann, 2014). Graham (2015) discusses in depth how these cables were not just cables but provided a whole new level of connectivity for Kenya. Still, this connectivity drastically yet paradoxically lowered perceptions of distance but not practices, which still displayed barriers and friction.

During the intervening period, the Kenyan government subsidized the cost of bandwidth for BPO companies by about \$920,000 (Mann & Graham, 2016) from the World Bank Transparency Communication and Infrastructure Programme (TCIP) funds while waiting for the cables to arrive (Business Daily, 2008). In addition, the government also committed to and commenced Phase I of the National Optic Fiber Backbone Initiative (NOFBI), which sought to provide a core fiber connection to all major towns in Kenya. This project was co-funded by the Chinese government.

At the beginning of the growth phase, the Kenya government adopted a more bullish approach. It made a series of institutional and policy changes that complemented the arrival of the cables (Ndemo, 2016). This impetus encouraged stakeholders to organize themselves to provide input into the ICT policy process by forming Kenya ICT Network (KICTANET). This influential lobby group comprised various stakeholders from the private sector, civil society, media, academia, the technical community, and individuals to actively contribute to ICT Policy in Kenya (Munyua, 2016). In addition, a BPO incentive framework and the BPO and Contact Centre (CC) policy were formulated. In 2008, the government then crafted the Konza Technopolis Smart City project as one of the flagship projects of the Vision 2030 Framework that sought to create a digital innovation ecosystem (Rosen, 2015). By design, Konza Technopolis was conceived to capture Kenya's growing global business processing outsourcing and information technology-enabled services (BPO/ITES) sectors. A development corporation, Konza Technopolis Development Authority (KOTDA), was thus incorporated, and an action plan to attract investors to Konza Technopolis was implemented.

By 2008, Kencall had won the Best-Non-European Call Centre Award at the Call Centre Focus Conference in Birmingham in the United Kingdom in 2008. This was followed by other international awards, effectively placing Kenya on the international BPO map (CCK, 2010). However, the focus on international BPO work did not succeed as envisaged initially, mainly because Kenya did not have the depth, scale, costs, and training to compete with competitors like India (Graham & Waema, 2014). Expensive and unreliable satellite Internet connections crippled the competitiveness of the international BPO. Lastly, a convergence of external environmental factors, including the 2008 post-election skirmishes in Kenya and the global recession, considerably slowed down the strides made in the industry. The global recession spurred protectionist policies by different countries, thus leading to a contraction of the potential markets. Furthermore, due to the World Bank-funded subsidy, many small and inexperienced firms sprouted in response to government incentives. This led the established BPO companies to claim they were dragging down the industry's reputation. This situation subsequently led to restrictions, mergers, and even closures of some pioneer BPO firms (Bell, 2015).

Whereas the Indian and Chinese BPO industries benefitted from a first-mover advantage, the Kenyan players were fragile due to the late stage in which they attempted to enter the global BPO industry. By contrast, local start-up businesses drove the growth of India's BPO industry, and these firms have since grown into large multinationals in their own right. Moreover, these firms were strengthened by strong diaspora links with the United States due to the migration of Indian professionals seeking educational opportunities (Mann & Graham, 2016). It therefore became apparent that the growth in BPO was not only locally driven but also had some external linkages. With this in mind, the Kenya ICT Board subsequently engaged McKinsey Consultants to develop a strategy for developing BPO in Kenya.

Early stage

The early stage commenced just after the undersea Internet cables had landed in the country, during which time there was renewed enthusiasm. This rollout was a watershed moment that ultimately changed the focus from exclusively international work to including domestic clients in both the private and public sectors. In their report, McKinsey observed that there were few prominent players in the industry, with all but one being foreign players (McKinsey, 2010). McKinsey noted that the local players predominantly operated in a typical underdeveloped outsourcing industry. There was now an increased impetus towards modernizing, digitizing, and increasing the efficiency of locally owned BPOs.

McKinsey further called for a multi-sectoral collaboration that included the different players in the government, industry players, and lobby groups. There was also a realization of the need to enhance the ecosystem, including collaborations for skills development and regional target players. After observing the nascent industry's challenges and the ever-pressing demand for job creation for the youth, the government shifted from exclusively promoting BPO to including ITES. This was also seen as an opportunity to leverage local business opportunities. A consistently deeper Internet and mobile connectivity penetration changed Kenya's ICT-led economic development environment.

In 2013, the Uhuru Kenyatta Administration ascended to power, bringing with it a shift of priorities, and shortly after that, the Konza Technopolis project ran into headwinds. As explained by a staff member of KOTDA,



...every new government comes with new policy and new focus areas. So, in such project (that) needed funding. So again, there was some time delays that (were) experienced during that time. (Interview with Respondent JK)

This immediately affected the competitiveness around Konza Technopolis as the incomplete infrastructure impaired the attractiveness of supportive industries to Konza Technopolis and is very consistent with Porter's Diamond. The government shifted its funding and policy-making attention to software developers and other high-value producers, most visibly in the celebration of cases like Safaricom's mobile money platform, M-Pesa, and the disaster response crowd-sourcing tool Ushahidi. In addition, the government began realizing the potential of ICT automation for centralizing control over government functions, including budgets, and reducing corruption and waste. Different ideas were explored for the digitization of various government services. For instance, the government considered digitizing some of their public services, as explained by Techno Brain during our interview:

So, we were able to sell this idea (Huduma Services) to the government, we launched, we started a call center for them, we operated here for ten years. And then by change of regime, then they also changed. (Interview with Respondent SA).

In 2013, the Kenya Revenue Authority announced that it would become mandatory for all medium and large taxpayers to file and pay taxes electronically (Business Daily, 2013a). Similarly, it announced it would start digitally tracking M-Pesa and bank transfers to identify non-tax-paying traders in the informal economy (Business Daily, 2013b). These policy changes spurred e-commerce activities in the economy, thus enabling a conducive digital host environment.

Although faster and cheaper connectivity was necessary for BPO providers, it was insufficient for BPO success. As such, the industry in Kenya was not without its set of challenges and misfortunes (Mann & Graham, 2016; Wamukoya & Ng'weno, 2017). Wamukoya and Ng'weno (2017) suggest that some of the required enablers included affordable and reliable power, easy and affordable access to requisite technology and capital goods, supportive regulatory environment programs for skills development, and an ability to make trusted and verifiable payments. These challenges have continued to date, a view that was expressed by one of the BPO service providers; -

...one of the things that (is) always a setback is infrastructure. (Interview with Respondent SA).

Kenya was moderately successful in attracting foreign BPO/ITES firms, thus building a positive and successful brand around the BPO/ITES sector, enhancing its reputation, and creating employment (Graham & Waema, 2014). However, there were also potential negative consequences, such as crowding out the market for local firms, pushing down wages, and foreign firms discriminatingly dividing work between geographical locations and subsequently retaining high-value work in other areas (Kleibert & Mann, 2020; Mann & Graham, 2016). These consequences led to innovative ways for the BPO firms of having to deal with demands from potential clients, as was suggested at Techno Brain:

...the pressure some clients, especially the smaller ones who are upcoming, they feel that with the name or whatever that you've already done, your services would be quite expensive. You see, at some point, it will depend or not really the reason, we have one of our clients here, who has two seats. (Interview with Respondent SA).

Meanwhile, outsourcing strategies started to evolve across the globe. The traditional outsourcing model predominantly relied on cost savings and leveraged offshore work and labor arbitrage. In addition, the model was largely transactional; thus, the focus was on large volumes to generate sufficient margins. There was a gradual shift towards integration across outsourcing deals and with shared services in a global business services operating model as pressure increased from global clients towards outsourcing models. An analysis by KPMG termed this as 'new generation outsourcing'. In this new model, there was an increased focus on value-added and strategic services. There was also a reduced emphasis on offshore and labor arbitrage, particularly because of increased domestic pressures for job creation. There was now a global shift towards smaller, domestic deals. Finally, there was more elaborate use of data and analytics along with intelligent automation within the BPO firm's processing capabilities. These expectations by international customers effectively set the basis for the next stage of growth for BPOs.

Developmental stage

During the third developmental stage, several global dynamics and country policy and goodwill changes resulted in a different level of engagement. During this period, the global milestone of Internet users exceeding non-users was achieved (Friederici, 2019), and the improved connectivity in Africa meant a digital boom was in the offing. Alongside this digital boom were emerging discourses on

spatial distribution and equality of the benefits of the digital economy. As a result of these concerns, there were trepidations around weaknesses associated with global inequities that were focused on inadequate local skills and technological talent (Graham & Mann, 2014).

During this period, one area that attracted scholarly interest was the linkage of economic and social benefits in the communities that embraced the digital economy. Anwar and Graham (2019) tried to link economic and social upgrading within the BPO industry in South Africa. One of the consequences of the evolving demands of global BPOs and the emerging discourses was impact sourcing. In impact sourcing, processes are designed so that local communities are immediate beneficiaries through the employment and sourcing of raw materials or products (Manning et al., 2017). As part of their social responsibility activities, foreign multinationals were keen to ensure that their service providers embraced impact sourcing. We explored the linkage of economic and social benefits for impact sourcing and used Techno Brain as one of our interviews (details are provided in Appendix 1).

During this developmental stage, the pace of development at KOTDA increased after the Kenya administration reprioritized it. The first steps were completing the strategic plan and operationalizing the development authority. The ICT-driven Technopolis has been clustered around activities related to BPO/ITES, Life sciences (including research and development aspects around wildlife, human, plant, and animal), and emerging technologies around engineering. In the plans, Konza Technopolis sought to be a world-class city that would flourish based on an available ICT sector, superior, reliable infrastructure, and investor-friendly governance systems. These plans were spread over different phases. The KOTDA staff exuded confidence during the construction of Phase I,

Around 2018, the infrastructure development started, that is the horizontal infrastructure, which we'll call the city below the city. Because at the moment, we have a quite an elaborate network of infrastructure underground, which is now all covered.... So, the underground work is done. Now we're starting to start seeing the other vertical, which is what people can appreciate. (Interview with Respondent JK)

In addition to these developments, the project site has been curved out into parcels for potential investors. The target names include the major MNCs, universities, and research institutes. As of

the time of the field research, US \$800 million had been committed as investment flows into the project. The KOTDA staffer voiced the following comments of optimism:

We are attracting investors, and therefore that is our strategic plan, priority number one, and supporting them, especially the core clusters so that then we can bring and leverage on the synergies that emerge from having the core clusters established. We are activating the knowledge economy, we have the content innovation ecosystem program, we are looking at both innovators and how we can support them to scale looking at capacity building in terms of knowledge workers, and their skilled professionals around the ICT area.... And as well as the SMEs, because we see them as pathways to the next investors (Interview with Respondent JK)

These circumstances suggest the simultaneous involvement of MNCs, suppliers, and an enabling environment. Initial investments by MNCs, universities, and research institutes have similarly spurred local supplier interests, evident through gradually repositioning suppliers around Konza Technopolis Ecosystem.

In addition to the evolving demands, the Kenya administration approved several policy papers, including the Kenya Digital Economy Blueprint, which prioritized investment in digital infrastructure to support business process outsourcing to end users. These end users included service providers and the clients to be served (Republic of Kenya, 2019a). It also approved the Kenya National ICT Policy (Republic of Kenya, 2019b) and the National Broadband Strategy (Republic of Kenya, 2018), which among other things, sought to support BPO/ITES across the country that was still considered a comparatively expensive destination (Wamukoya & Ng'weno, 2017). During this period, the fifth undersea Internet cable, the Djibouti Africa Regional Express 1 (Dare 1), and the sixth Pakistan and East Africa Connecting Europe (PEACE) cable landed in the country, thus creating additional Internet capacity.

This stage also saw the ascendancy of innovation hubs that quickly proliferated as part of the innovation ecosystems mainly focused on local talent but with support from international development agencies and other partners, including investors, mentors, and government agencies. Though these were not directly related to outsourcing, they provided opportunities for local talent and skills development and innovative solutions to many underlying problems, such as inefficient value chains. Friederici (2019) observed that there had

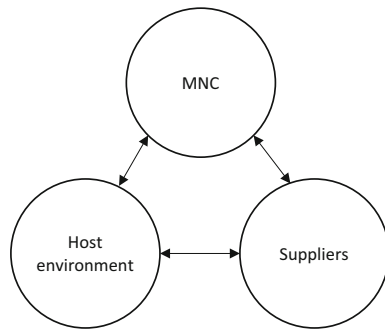


Figure 1 Outsourcing triad.

been mixed experiences with hubs, presenting valuable addition yet facing challenges of ineffectiveness, inefficiencies, and exclusivity.

In recent years, a one-person micro-provider as a new offshoring model has emerged beside the established multi-person outsourcing service models. In this model, global clients are served in transactions conducted via online platforms. These are now commonly associated with the gig economy and have been growing quickly (Anwar & Graham, 2021). In either of the earlier two models, small providers may not be able to build credibility with international clients and instead end up as subcontractors or employees to larger providers. These concerns were expressed vividly by Techno Brain:

Currently, it's a saturated market. It's very easy to come in to leave but again, you look at looking at sustainability. Are you able to sustain in the market? Are you able to sustain your customers? Are you able to service them because again, even as you operate as BPO, there are other third parties that would be involved? (Interview with Respondent SA)

These profound comments from a practitioner alluded to a dynamic environment. The environment forms one of the crucial elements, and environmental change necessitates a readjustment in the behaviors of suppliers and MNCs. Hence, the emergence of a “platformization” of the global economy is now challenging the dominance of large providers and MNEs.

DISCUSSION AND CONCLUSION

We have sought to understand how African BPO suppliers can grow and become more attractive to foreign multinational corporations. Through the means of an analysis of the evolution of the Kenyan BPO industry, we have identified the three broad stages of embryonic, early, and developmental (cf. Klepper, 1997) that each progressively illustrates

the growth of the industry. We also laid out how this evolution is driven by the four interacting elements of an industry cluster in Porter's (1990) diamond model of factor (input) conditions, demand conditions, rivalry of firms, supporting and related industries, along with the role of government in shaping these elements.

One of the key findings of our analysis is that the Kenyan BPO industry is yet to move beyond a developing phase toward a more mature stage. Indeed, the industry has evolved considerably since its initiation due to a vibrant interplay between multinationals, local suppliers, and an active state. Yet, there is still a high degree of uncertainty and ambiguity regarding services, business models, and practices. For example, the growth of the industry has not been linear but instead staggered and largely dependent on favorable policies by the Kenyan government. Further, there is still a growing market volume where firms have not converged on a dominant design. Given the age of the Kenyan BPO industry, this is perhaps not a highly surprising finding (Melia, 2020). Nonetheless, it is a critical observation to the extent that the potential for spillovers and upgrading is still to be fully realized. This is an area where the Kenyan government could be more assertive in enabling policies.

An Outsourcing Triad

Although our focus is primarily on developing policies, our paper also offers insights into the literature on the evolution of industry clusters (e.g., Klepper, 1997; Porter, 1990). Our case study of the Kenyan BPO industry shows how the dynamics of industry cluster evolution play out in an African emerging-market context with weak formal institutions. While extant research emphasizes the role of knowledge and innovation (Maskell & Malmberg, 2007), entrepreneurs and firm dynamics (Feldman et al., 2005; Mudambi & Santangelo, 2016), and competition (Porter, 1998) in growing clusters, we observe that the development pattern in the Kenyan BPO cluster is more uneven than models such as Klepper's (1997) suggestion. It is affected more heavily by changes in the host country's environment compared to how industries in a developed country context evolve.

Thus, to understand the barriers and opportunities of the African BPO industry, we emphasize the roles of suppliers (providers), the host environment, and (multinational) clients and their mutual interdependency. To that end, we present a simple outsourcing triad model (see Figure 1), wherein the

evolution of the industry can be regarded as an interdependent system in which the individual actors are integrated into an orchestrated systematic whole (e.g., Henderson & Clark, 1990).

We observe that all three legs of this model played their part in developing the Kenyan BPO industry during the different phases we studied. In this respect, it is noteworthy to emphasize how the actions and decisions of the various actors had direct and indirect consequences for the longevity of the other actors. For example, it was only through establishing the fiber-optic Internet cable connecting Kenya to Dubai during the embryonic stage that providers could develop and offer affordable services to foreign multinationals that could compete with services provided in Asia. Subsequent to this, policies that encouraged institutional developments were introduced, such as the formation of KICTANET, which lobbied for improving the ICT ecosystem.

Based on this, we suggest that the BPO industry in Kenya, presumably also in other African countries seeking to build a vibrant BPO industry, must be regarded as a system of interdependent decisions and relationships. While our outsourcing triad is simple and does not necessarily offer an exhaustive list of all actors, it does provide a parsimonious view of the complexities and challenges that underlie successful evolution within this context. On the one hand, this perspective suggests that successful evolution will be less likely to occur due to the action of single actors, such as either suppliers or multinationals. Instead, it is through the interplay of suppliers that can develop and offer competitive services, multinationals that are willing to source tasks and services from emerging regions outside the conventional BPO areas, and a supportive environment with stable government policies that evolution will occur. We could see how this interplay created the foundation of transcending the industry from an embryonic to an early developmental stage.

On the other hand, it is also evident that successful evolution comes with considerable complexity and coordination costs. For example, the potential of the Konza Technopolis cluster rests on a complex myriad of commitments from local suppliers, foreign MNCs, and actions by the government. Given the sheer complexity of these types of endeavors, one can speculate whether the project's potential will be realized. This calls for deliberate policy actions that will encourage all

Konza Technopolis Outsource Triad actors to focus more on the ecosystem.

To foster a successful evolution of the BPO industry, we suggest that a critical policy responsibility becomes to ensure meaningful integration of the system supporting the outsourcing triad. In this respect, policymakers should presume the role of systems integrators, who "lead and coordinate from a technological and organizational viewpoint the work of suppliers involved in the network" (Brusoni, Prencipe, & Pavitt, 2001: 613) supporting the BPO industry. The interactions and interdependencies between the suppliers' and multinationals' tasks and activities must be defined within the appropriate environmental context (Thompson, 1967; Ven & Delbecq, 1976). However, the system integrators would function as "the architect" that ensures integration and coordination of which capabilities and resources are required of the different actors at different stages of the evolution. According to Brusoni et al., (2001: 614), "While markets satisfy the need for distinctiveness, and hierarchies the need for prompt responsiveness, system integration reconciles them for specific products and technologies". As such, policymakers – acting as system integrators – need to identify the system's optimal governance and integration mechanisms based on internal and external factors such as complexity, component criticality, and resources. In essence, system integration becomes a crucial strategic mechanism in response to a growingly complex system (Simon, 1962). As we suggest below, it offers the most scope for policy improvements.

Policies for Growing the Industry

Before we provide specific policy implications building upon our study and existing insights from the literature, it is necessary to understand the obstacles to outsourcing and the development of the BPO industry in Africa. The literature has identified several suggestions already, and our case study confirms some of these while adding specific insights. The key factors, some of which might be seen as the 'usual suspects', include lack of infrastructure and poor transport connections, low levels of firm formalization in the industry, a limited presence of foreign multinationals which are BPO providers, weak de facto contract laws, volatility in institutions, and underdeveloped markets for the products of multinationals.

The stability of government policy is another area of concern. The Konza Technopolis



development is a case in point, as its prospects seem to have been swinging in line with the wishes of the Kenyan political players. Although there was some earmarked money for this development, its prospects would have improved if the various politicians were more aligned on this project. Additionally, this stability can influence the interest of private industry players and MNCs in long-term commitments. The implication is that developments such as Konza Technopolis should be built on a broad and lasting consensus among the political class. This supports our argument that it is hard to progress unless policymakers see themselves as systems integrators.

Finally, training prospective employees in the Kenyan university and college system offers scope for improvement. In particular, universities could do more to update the curriculum with digital elements. One element of Konza Technopolis is establishing a new university, the Kenyan Advanced Institute of Science and Technology, modeled on the Korean KAIST, and such developments are highly called for. According to this, there has been an attempt to engage the triple helix model by attracting other public and private universities to invest within Konza Technopolis. One such attempt is the location of the administrative offices of the yet-to-be-launched Open University of Kenya. Still, many investors have adopted a wait-and-see attitude. This suggests a need to involve investors early and continuously in plans for projects as large as Konza Technopolis, demonstrating yet another example of a greater need for systems integration.

Some of the specific insights we derive from this analysis are that while key factors such as an educated workforce and competitive cost levels are in place, the growth of the industry has been hampered by the relatively small scale and sometimes informal nature of most local suppliers, the reluctance of foreign multinationals to make large-scale investments or set up significant, long-term supplier relationships, and the intermittent attention paid to the BPO industry by the Kenyan government. While the role of foreign multinationals has been documented in the literature (e.g., Mudambi & Santangelo, 2016), the role of informal actors offers novel insights into cluster development. With an estimated 89% of all workers in sub-Saharan Africa being employed in the informal economy, it is important to acknowledge the role of the informal economy when developing policies to support the growth of the BPO sector. The

informal economy can be defined by market-based activities carried out by unregistered or registered firms but hidden from taxation and regulation (De Castro et al., 2014). Firms may operate informally due to factors such as deliberately escaping formal enforcement, few resources to support formalization, or lack of knowledge of formal requirements (La Porta & Shleifer, 2008). Importantly, informal firms are typically deprived of institutional protection and decent working conditions (Narula, 2020) and are more likely to evade regulations, pollute, and contribute to environmental degradation (Abid, 2015). Although some BPO suppliers rely on informal actors to support their operations (e.g., simple processing, coding, etc.), it may prove difficult to establish long-term partnerships with foreign MNCs that enforce strict labor standards within their global value chains (Narula, 2019).

Accordingly, we argue that there is a need for national policymakers seeking to support the growth of respective BPO industries to establish an environment that both tackles short-term obstacles (like the absence of decent working conditions and lack of proper standardization schemes) and creates long-term, environmental stability with refined and standardized services for both local suppliers and foreign multinationals (including supporting the formalization of the informal economy supporting the BPO sector). On a regional level (e.g., African Union, East Africa Community), policymakers should assume the responsibility for achieving higher levels of systems integration to ensure a conducive environment for the range of domestic, regional, and multinational actors central to the BPO industry in Africa. In this respect, the ratification of the Africa Continental Free Trade Area (AfCFTA) by different countries in Africa with an emphasis on coalescing digital skills and knowledge transfers will be critical. A final point concerns the organization of policy. If we accept the systems integrator role of policymakers that our outsourcing triad provides, policies around attracting foreign investment, trade-in services, starting new BPO firms, training knowledge workers, and so on must be internally consistent. This focus puts a very high bar on creating these policies, but it might be a necessary next step.

Policies for Indirect Effects

More generally, we believe our analysis of the evolution of the Kenyan BPO industry has implications for policymakers concerned with implementing the United Nations' Sustainable

Development Goals (related to aspects such as economic growth, decent work, stimulating entrepreneurship, and growing international economic ties). Specifically, we suggest that the scope for creating a more successful industry that can make a broader direct and indirect impact on society depends on the potential to continue supporting the industry's evolution toward a more mature phase.

We see that there is greater potential to build and exploit knowledge spillovers. Such effects have been studied at length in international business and economic geography research (e.g., Manning & Richter, 2022; Mudambi & Santangelo, 2016), where it is argued that even in peripheral regions, it is possible to bring in and benefit from the knowledge of MNCs. The Kenyan BPO industry has foreign MNCs involved as clients and providers. We observed some spillover within individual firms such as Techno Brain, but policies such as establishing peer learning networks in the industry could further enhance those.

One additional area where we suggest the potential for improvements is the working conditions in the industry. Some of our interviewees alluded to some 'get-rich-quick' schemes in the BPO industry in Kenya that involved long working hours and operations running from people's living rooms. Anybody can start a BPO firm, and even though the Communications Authority of Kenya maintains a database of licensed BPO operators, its oversight is

practically limited. This void may have subsequently encouraged these malpractices to flourish. Moreover, labor unions appear to have no particular influence or interest in the BPO industry. It takes two to tango, and multinational firms can play an active role here by insisting on certification and ensuring the rights of employees working for their BPO providers. As a result, trade and investment policies should stimulate multinationals to implement such certification schemes and demands on employee rights.

Conclusion

In conclusion, our paper demonstrates that, notwithstanding the uneven development of the BPO industry in Kenya, all three actors in the outsourcing triad (multinationals, the host country environment, and suppliers) play their part in pushing forward the outsourcing industry in Africa. We have provided specific policy suggestions that we believe can help further advance this industry. Many important ingredients are already in place for achieving this, and we broadly see the industry's future positively.

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APPENDIX 1: CASE OF TECHNO BRAIN BPO

A Tanzanian incorporated firm that soon after opened offices in Nairobi, Techno Brain tapped on the existing locational advantages to sustain its growth and was a pioneer in impact sourcing. Techno Brain has a presence in over 15 countries and has over 18 million secondary clients in their database. The business grew with primary clients that were sourced both locally and globally. This diversity was characterized in this way:

...we have a portfolio of 36 clients that we are serving both locally and globally. But in terms of proportionality, would you say it's 50:50...

...we do get clients globally who can still be able to work with us...

We do not just come as a company to be able to make profit, but we want to grow with our clients, with our customers to be able to understand them. And at the end of the day, make sure that they are happy, they are comfortable....

Because now most of the companies from the US are looking towards Africa and Kenya specifically to be able to provide or some of the support.

So basically, this client is a UK-based client. They send medical files and we have a team here who do transcription and review and we send back the files. So even within this training now for that is because it's medical, they'll tell you now, I need someone with medical background or understanding. (Interview with Respondent SA).

Techno Brain engages in impact sourcing, by hiring some people from slum areas in Nairobi and providing the necessary training to become regular employees engaged in BPO activities. According to an internal survey, as of 2018, Techno Brain had employed more than 800 employees from the

challenged communities over and above their typical employees. Similarly, more than 50% of their staff were from challenged backgrounds, with an even balance between male and female employees. Over 70% of their staff were a mix of secondary and diploma certificate education, and more than 66% acknowledged that they were the sole breadwinners of their families. More than 74% of their staff acknowledged that they had relocated to better living areas due to the influence of Techno Brain. The effect of Techno Brain's approach and analysis of their trends and patterns are best exemplified by the following comments by Techno Brain:

I'd say it's a perception that somebody who is not well educated will not give better service, which is not the case. It's only maybe experience that they're lacking, but you can't give them the same way.... (Interview with Respondent SA).

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