

Strategic Outsourcing of Revenue Collection and Service Delivery in the Water Service Provision: A Case of Kericho Water and Sanitation Company (KEWASCO) In Kenya.

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Abstract

This article argues that the outsourcing of revenue collection services improves service delivery in Kericho Water and Sanitation Company (KEWASCO). The water service provision sector, like any other public service entity, is under a lot of public pressure and scrutiny to continually improve its services. Under the regulatory framework of Water Service Regulatory Board (WASREB), water service providers in Kenya have been provided with the key performance indicators (KPIs) for service provision. Among the KPIs provided by the regulator is the improvement of revenue collection efficiency, reduction of water losses as well as the optimization of staff per thousand connections/customers. This study collected data from employees as well as water consumers of KEWASCO. Samples were drawn from KEWASCO's service area through clustering, random as well as purposive sampling techniques. The findings of the study demonstrated that the outsourcing of revenue collection services made payment of water and sewerage services easier and ultimately improved the revenue collection efficiency of the company. Additionally, outsourcing of revenue collection services freed the company employees to carry out other core functions of the company hence reduction of overall cost of production in the organization. Finally, the study recommends, among other things, that KEWASCO should carry out proper sensitization, targeting the elderly customers, so that digital money transfers may be more acceptable. This will increase revenue in the company.

Keywords: service delivery, strategic outsourcing, revenue collection, water service provision and Kericho Water and Sanitation Company

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I. Introduction:

Service delivery is a challenge both in profit making entities and public sector. It involves continuous improvement of service standards to ensure ever changing customer needs and demands are met (Skaggs & Galli-Debicella, 2012). According to Burnes (2004), quality service is acquired through integrated system; including financial resources, diverse human skills and expertise and excellent channels of communications. This integrated system however, is usually unmatched from one organization to another making managers face difficulty in improving service delivery

Adoption of outsourcing as a management tool in service industry, allows world class competitive firms to partner through public-private arrangements. Such partnership improve service through; access to advance technology, risk mitigation and acquisition of competitive advantage which enables organizations survive in a competitive environment. The outsourcing strategy basically meets efficiency in delivery of services by lowering operation costs, enabling organizations to deal with unexpected rise in demand, ease access to market and by allowing firms concentrate on their core tasks as non-core functions are outsourced to specialists (Manning, 2013; and Masaba &Pule 2015).

Continuous improvement of service is made possible by allowing firms gain competitive advantage. Competitive advantage enables firms to maximally utilize its core resources as peripheral activities are performed by outsourced partners with high skills (Kiongera et al. 2014). Organizations gain outsourcing advantage through; superior quality, marketing advantage, cost efficiencies or value chain optimization. Maku & Alvaro (2014) agree that outsourcing practice promote value chain optimization by enhancing quality at a lower cost possible. It is evident that to improve service, accurate information to customer needs in real time is inevitable and can only be possible through coordination with private experts.

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Exceptional service delivery in organizations has been achieved through outsourcing of high resource intensive non-core tasks. Such functions require specialized competencies, tasks dependent on rapidly changing technology, high labor intensive activities as well as those requiring high initial investment (Manning 2013). Outsourcing strategy allows organizations to assign non-core functions to experts with more knowledge in providing, while the organization is left to concentrate on its core functions (Ndungu & shale 2016). It brings significant changes in the service industry for instance a firm with limited capacity to complete its delivery can actualize its service through outsourcing.

Recession in world economies has forced public sectors to form alliances with private sector to improve service delivery at affordable budget. According to euro statistics 2015, United Kingdom improved delivery of basic services by restructuring its delivery system in social and healthcare services. The restructuring reduced annual delivery costs by 4billion euros. At regional level, a research conducted shows that sensitive services such as revenue collection has been outsourced by local governments to increase revenue collection efficiency (Fjeldstad, et al., 2009). Kenyan government has also incorporated the outsourcing policy to appropriately deliver services to its citizens. As a result, bureaucratic inefficiencies in service sector has reduced significantly.

II. About Kericho Water and Sanitation Company (KEWASCO)

Kericho Water and Sanitation Company (KEWASCO), is water service provider formed under company's Act CAP 486, laws of Kenya. It is a public institution owned by Kericho County Government, whose main objective is to supply safe clean water to the residents of Kericho and its environs. The company however is marred with a number of challenges in its service delivery including; high operation costs, low revenue collection, high non-revenue water and regular water supply interruptions. It is also important to understand that limited funding, funds misappropriation and unprecedented growth in demand are part of hindrances to quality service provision facing water sector.

WASREB Impact Report (2018) show that KEWASCO failed to attain minimum service level as a result to high operation costs, high non-revenue water (water losses), inefficiency in revenue collection and water supply interruptions.

To run day to day tasks of an organization, adequate fund is necessary, most organizations embrace several strategies to ensure sufficient revenue returns. Revenue collection is one of the important task an organization must draw attention to. Revenue allows payment of recurrent expenditure to keep organization running.

The question of revenue collection is so important in water sector. However, WASREB Impact Report Assessment of 2018, show majority of water service providers' collections were below the set minimum standard minimum of 95% of the amount due for collection in every billing cycle. The water companies sighted low revenue collection as a result of evasion by customers, corrupt employees and political pressure by consumers on water service providers to relax on payments.

To address the challenge, KEWASCO has adopted several management strategies, revenue collection outsourcing being one, to improve revenue collection efficiency. It is however, not clear if adoption of outsourcing strategy has really improved services. Since 2018, indicated in the WASREB report, KEWASCO had managed to collect 72.9% of the total payable accounts. The amount was below the 95% set standard by regulator. This study was therefore carried to empirically show the effect of outsourcing revenue collection on service delivery at water sector with KEWASCO as a reference company.

III. Methodology

The study adopted a descriptive research design. The population of the study included all the stakeholders of KEWASCO for instance employees, consumers and the shareholders (Kericho County Government). To reach at the appropriate study population the researcher deployed purposive, clustered, stratified and random sampling techniques.

For the employees of the company, purposive sampling was adopted. This is because the researcher wanted to reach to the respondents who are privileged with the access of the information that was required for this study. Employees from the commercial and finance departments were targeted because they had access to the revenue monitoring system. Respondents from Kericho county government were also purposively sampled. The researcher settled on the department of water in the county government because they are strategically placed to answer questions regarding the issues of water service provision.

Consequently, for the KEWASCO customers, who were 17086 in number, clustering and stratified random sampling was adopted. When clustering technique was applied the researcher came up with one zone with 1664 consumers. To reach the sample size from the 1664 target population, the researcher stratified them into several categories such as learning institutions, domestic consumers, commercial consumers and health

facilities. From the strata created, random sampling was applied to reach the desired sample size of at least 10% of the target population as recommended by Mugenda and Mugenda (1999).

Data was collected using questionnaires (structured and unstructured) and interview schedules. The reliability and the validity of the instruments were tested and adjustments made accordingly. The researcher was keen on the ethical issues during data collection. The researcher kept the anonymity of the respondents apart from securing all necessary clearances from the relevant authorities to conduct the study. Finally the collected data was subjected to rigorous thematic analysis and findings were presented in a narration form.

IV. Outsourcing of Revenue Collection and Service Delivery

Contractual arrangements on revenue collection have been endless due to the fact that revenue is a lifeline of any organization. World Bank report 2017 on urban development argue that low revenue collected by local governments crippled development of projects hence hindering service delivery. To improve delivery of essential services to citizens in developing cities therefore, efficiency in tax collections is necessary (Mrutu & Mganga 2016). Managers have been tasked to come up with various policies to ensure maximum collection of tax. Such policies have seen local governments outsource tax collection to private companies.

To improve services, organizations have outsourced revenue collection to banks and mobile service providers to encourage mobile banking. Mobile payment system has been adopted widely due to its flexibility. Outsourcing revenue collection attracts use of advance technology that allows organizations to offer exceptional service to its clients. Development of electronic payment system is more efficient, cheaper and faster. For instance, it ensures automatic account adjustments providing correct account balances free from human errors and such statements are readily available upon request. This is in agreement with a study conducted by Mulama, A. (2012), that outside service providers implement inevitable changes brought by modern technology in service industry. Such changes enables consumers to receive exceptional service.

Previous research finding have shown that outsourcing of revenue collection services maximizes revenue collected (Fosu & Ashiago, 2012; Mrutu & Mganga, 2016). Since profit incentives earned by private agents is based on a percentage of total revenue collected, private agents yarn to maximize earnings by increasing revenue collection for the organization (Khan, et al., 2014). Also, an increase in total revenue collected has been realized through lowering cash handling related risks. Studies have shown that risks associated with cash handlings such as thefts and robberies are transferred to the private agent (Mabhuye, P., 2013).

Previous studies have also justified privatization of revenue collection as a way to eliminate funds misappropriation, corruption and embezzlement practices by employees. Studies also show that corrupt activities are rampant in public organizations due to its nature of high rigidities and complexities (Fjeldstad et al, 2014; Mrutu & Mganga, 2016). However corruption is lowered if private agents are adopted such ill practices are well stipulated in agreement and can attract heavy fines incase embezzlement and fraudulent practices are detected. Also it is argued that private collectors have lower political incentive to collude with clients liable for revenue payment (Fjeldstad et al, 2009).

Organizations view competitive advantage as a way to improve service delivery (Masaba & Pule, 2015). A survey on Tanzanian local authorities which analyzed the performance of outsourced revenue collection services agrees that the theory of core competency is appropriate in understanding the link between service delivery and revenue mobilization (Mrutu & Mganga, 2016) Further studies on effects of outsourcing by Koinera 2014; Maku & Alvaro (2013), confirm that outsourcing enables an organization to re-direct its competencies to core functions as non-core peripheral tasks are performed by outsourced experts. In water sector, outsourcing revenue collection task to experts such as banks, as the workforce concentrate on core tasks like repair and maintenance of leakages. This will in the long run ensure that the firm benefits from external skills they lack and essential tasks accomplished competently to improve service.

V. Findings of the Study

This study finds that outsourcing of revenue collection improves service delivery in KEWASCO. A majority of respondents (89%) agree that outsourcing of revenue collection indeed enhanced service delivery directly or indirectly. Improved service was seen through: increase on revenue collection efficiency, lowering of overall production cost, reduction in water losses and rise in service hours.

Revenue Collection Efficiency

A majority respondents (72.6%) agreed that there was increase in revenue collected after outsourcing of revenue collection function. It was also noted there was a significant increase in revenue collection efficiency from 79.7% to 92.3%. Increase in revenue collected was attributed to ease of payment by customers. A majority of the customers agreed that payment for KEWASCO services was flexible, safe, and cheap. Customers agreed they could perform transactions at the comfort of their homes without time limitation.

An employee from finance department noted that, initially before contracting private agents, risks associated with cash handling were very common, as monies could be held within company premises which attracted robbers. However, with arrangement with banks for mobile banking, thefts and robberies had since reduced significantly. Lowering such risks had seen an increase in revenue collected.

Cost of Production

Most interviewed respondents agreed that overall cost of production had been reduced, especially labor costs. An employee from commercial department, noted that before privatization of revenue collection, the company employed big number of staff to collect money from customers' households. A task which he agrees was not only very expensive for the company but also tedious to supervise. However, with introduction of mobile banking application, employees at the revenue collection department have been significantly reduced hence lowering the cost of operation.

An employee from the finance office also noted that administrative costs had lowered in the long run. Overhead costs associated with employment of permanent employees, such as supervision, overtime, leave allowances, medical allowances, retirement among other benefits had also been reduced. Human resource department noted that recurrence expenditure had reduced slightly, lowering overall cost of operation.

Indirect Benefits of Outsourcing Revenue Collection Services

It was noted that outsourcing revenue collection in KEWASCO also improved services indirectly. For example, in-house employees were eased to focus on other tasks improving organization's performance. A respondent from the technical services department confirmed he had adequate staff to deploy to the field to address customer complaints including repair of leakages, meter reading and installation of new water connections. This improved the quality water supplied, reduced of non-revenue water and increased in water service provision hours.

Another respondent from the finance department also agreed that rise in revenue efficiency had seen the company run its operations smoothly and pay its employees promptly. Also importantly, contractual agreement with banks led to overall improvement in service delivery. As the company could easily secure credit facilities from banks to service development projects.

Customers' accounts were automatically adjusted with mobile banking. It not only enhanced customers satisfied but also merited the accounts department as financial reports could easily be generated by the management for decision making.

VI. Conclusion

From the findings, it is evident that KEWASCO made right decision by adopting outsourcing strategy as one of its management tool. KEWASCO entered into contractual agreement with banks and mobile banking service providers to receive payment and bank monies on behalf of the company. The act has improved services at KEWASCO a number of ways: increase in revenue collection efficiency, reduction in operation costs, reducing water losses and increasing service hours.

Outsourcing revenue collection services led to increase in the total revenue collected. It is evident that mobile banking services enabled customers to make payments conveniently without having to travel to the company premises. Also risks associated with cash handling were significantly reduced consequently leading to increase in revenue collected.

Findings also depict that overall cost of production was reduced in a number of ways. The study shows that initially, KEWASCO had to deploy sizeable number of employees (revenue collectors) to water consumers with receipt books to collect payments. However, mobile banking had literally cut employees for the task almost to zero. Personnel associated costs such as administrative costs was lowered as the number of permanent employees significantly reduced at commercial department.

Lastly, revenue collection outsourcing has indirectly enabled Kericho Water and Sanitation Company employees and management concentrate on other tasks to improve service delivery. For example, excess revenue collectors were deployed to the field to address water leakages and attend customer complaints. This eventually to reduction of non-revenue water (water losses), improve in quality of water and rise in service hours for its consumers.

However, it was noted that despite use of mobile banking being a very convenient flexible way of making payment. Some customers, especially majority elderly category customers had not embraced mobile banking, a challenge that still limited maximum revenue collection at the company.

VII. Recommendation

Study findings on service delivery and revenue collection shows outsourcing of revenue collection function by an organization is possible despite being a sensitive function. Contractual agreements with banks

brings in use of modern technology which is more convenient and efficient for settling bills. It is however evident that some customers and especially the elderly are yet to embrace mobile banking systems. The researcher therefore recommends that, organizations and Kericho Water and Sanitation Company in particular should invest in sensitizing customers on importance of mobile banking. Educating its customers on how safe, cheap and fast the mode of payment is, will convince its adoption. This way, KEWASCO will consequently increase revenue collection in the long run.

Research recommends to Kericho Water and Sanitation Company and other water service providers to consider outsourcing other non-core functions. Findings shows that outsourcing revenue collection had indeed improved service delivery both directly and in-directly.

Lastly to other researchers, a study should be carried to understand why Water Service Providers still underperform according to Water Service Regulatory Board standards despite outsourcing some of its sensitive functions like revenue collection. More research need to be done to understand possible cause of; high operation cost, low revenue collection efficiency, interruptions in water supply, high water loss and poor water quality which hinders service delivery at water sector.

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