

**THE EFFECTIVENESS OF BUSINESS PROCESS OUTSOURCING IN
SAFARICOM LIMITED-KENYA**

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DECLARATION

This is my original work and has not been submitted for the award of a degree in any university.

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The project has been submitted for examination with my approval as the university supervisor:

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DEDICATION

This study is dedicated to my mum, dad, sister and brother without whom I would not have come this far.

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I appreciate the support of the following who worked tirelessly to ensure I conduct this research successfully. First, I am grateful to my parents, Paul and Edith for their encouragement and support with funds for carrying and conducting this research.

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ABSTRACT

The purpose of this study is to determine the effectiveness of business process outsourcing in Safaricom Limited Kenya and how it can derive value out of the strategy. A content analysis was used in this study. This study was specific to employees at Safaricom limited who were divided into stratum of different levels of management and general staff.. Primary data was obtained to provide the needed input for the study.1 Data analysis was done through use of content analysis. The findings of the study showed that outsourcing could be used as a strategy of choice to gain competitive advantage and the respondents acknowledged that not all activities could be outsourced, thus the major task of the management is to make decision on which departments to outsource. According to the study, the main activities that Safaricom Limited could outsource were maintenance and operation, transmission, equipment hiring and network management. There was resistance to outsourcing of product development and customer service departments.

With regards to values and benefits gained, cost cutting and revenue generation were the main values that could be gained while there was opposition with regards to improved product Development. Further the major challenges identified from the study include Formulation and quantifying service requirement. The major conclusions of the study as guided by the research questions were that there were very few option than outsourcing for Safaricom Limited .The respondent acknowledged, although it was also clear that not all activities could be outsourced, there was a general agreement that outsourcing decision should come from the board level. The major benefits, focus on strategy is the highest of the managers agreeing while freed up of internal resources, Areas that did not indicate positive response to outsourcing was mainly improved research and product development. The general outlook based on the study was outsourcing could be used as a strategy of choice to off load non-core function of Safaricom Limited to gain competitive advantage and enhancing its maintenance of the market leadership within the industry.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In our present day, increasingly competitive markets, where business cycles are demandingly short, especially in respect to time to solution, time to market, and time to profit, outsourcing has evolved from spot-contracting to relationships where service providers offer products and services that advance the company's strategic business goals (Leisman, 1999) and enhance the provider organization's position in the value chain. In order to gain value advantages, organizations must be able to understand their own business and its processes before handing them over to suppliers.

Outsourcing is one of the most recent management strategies to emerge in response to demands for more efficient ways to address organizational competitiveness. Strategic outsourcing has been seen as effective strategy for gaining a competitive advantage as exemplified by most multinational companies. In these intensely competitive markets, these companies see outsourcing as a way to hire "best in class" companies to perform routine business functions and then focus corporate resources on key activities in their value chain where the impact will be felt the most by the customer. Examples of this strategy is best illustrated by the operations of Nike Company which has outsourced shoe production and manufactures only the key elements of its "Nike Air" system. This is the strategy that has helped Nike to capture and sustain leadership in the athletic foot ware and apparel industry for most of the last decades.

Nike creates maximum value by concentrating on the production of what is unique to them, such as research and development and post-production activities, i.e. distribution, sales and marketing, with the exception of advertising, which has been outsourced. (Leavy, 2004) In the turbulent environment where management carefully weighs the costs and benefits of every discretionary investment dollar, establishing the strategic importance of outsourcing is therefore critical and necessitates this particular study.

According to Zhu, Hsu and Lillie (2004), outsourcing defines the process of transferring the responsibility for a specific business function from an employee group to a non-employee group. Outsourcing can also be defined as turning over all or part of an organizational activity to an outside vendor. In the services industry, outsourcing was traditionally restricted to basic support activities. It was also primarily used when restructuring firms that were in bad financial shape. Today, outsourcing pervades the management of most companies. It has also become increasingly clear that outsourcing is more than a passing fad. According to a report from the Economist Intelligence Unit, 34 per cent of firms outsourced all or part of their information technology (IT) in 1997. The proportion was expected to reach 58 per cent by 2010. Similar increases are expected for activities such as telecommunications, accounting, and human resources (Barthelemy and Adsit, 2003).

The goal of companies that aggressively outsource most functions is to enhance competitiveness by achieving a higher return on assets through less capital commitment and increasing the ability to adjust quickly to a changing environment through less commitment to in-house resources.' Their ad- age is: do more with less. Outsourcing is motivated by growing pressures on management to remain competitive by accomplishing more with fewer resources at a faster pace. Competitive pressure is a constant driver to increase efficiency. Organizations have been, or are being, restructured, downsized, and reengineered in a relentless attempt to achieve a state of efficiency, effectiveness, and agility expected to deliver increased productivity. In order to do more with less, a company must focus its limited resources on those activities that are essential to its survival and must leverage activities that are peripheral. The result is a greater use of partnerships, collaborations, and simple buying to substitute for in-house capabilities. (Insinga and Werle, 2001).

The critical question asked by many businesses is how outsourcing can perform a function better than the internal resources. The answers lie in the fact that outsourcing provides certain leverage that is not available to a company's internal departments. This leverage can have many dimensions: economies of scale, process expertise, access to

capital, access to expensive technology, etc. The combination of these dimensions creates the cost savings inherent in outsourcing. Since the outsourcing "seller" who specializes in a Particular non-core business function has the economy of scale and the expertise and the Capital investments in the leading technology to perform the same tasks more efficiently and better than the internal departments of the outsourcing "buyer" (Bendor-Samual ,2006).However, while outsourcing can be effective for firms, they could also have various traps one being lack of management commitment during implementation. Executive management often believes that outsourcing is a quick fix for core problems plaguing their business, from bloated cost structures, substandard quality, and insufficient internal skills and extended product development life cycles to a lack of business focus. This leads to band-aid solutions rather than root cause. (Power, Bonifazi and Desouza, 2004).

According to published research in April 2006 (Ref: Orbys Consulting in conjunction with Henley Management College & Benchmark Research) it has been concluded that many outsourcing contracts are still failing to meet expectations, blue-chip companies taking services back in-house . However, effective outsourcing can accrue some benefits like providing the board of Directors with an independent view on achievement / improvement of the outsourcing suppliers' effectiveness (prior to any investment decisions),improving opportunities and high level plan for implementation, providing the means to re-negotiate supplier Service Level Agreements & Commercial, recommending customer service metrics based on experience of actual customer satisfaction andgap analysis (& process model analysis) to identify how efficiency improvements can drive improved return on investment (often without the need for further investment).

1.1.1 Business Process Outsourcing in Organizations

Outsourcing refers to the use of an external provider of goods or services instead of having recourse to internal resources to provide the same goods or services. As such, outsourcing is a decision concerning the boundary of a firm and this has been a concern since the very existence of firms (Lonsdale and Cox, 2000).

In today's business environment of rapid change, social, political and economic volatility, globalization trends and technological advances, corporations worldwide are re-examining and redesigning their business practices in an effort to remain competitive. They are engaging in a range of creative strategies, both internal and external, to 'concentrate the firm's resources on set of core competencies where [the firm] can achieve definable preeminence and provide unique value to customers'. The changes come under many names: downsizing, rightsizing, reengineering, total quality management, streamlining, reinvention, virtual corporation, de-layering, and outsourcing (Glagola, 2004). Thus, outsourcing is evolving into a strategic process for organizing and fine-tuning the value chain. For many of the forward-thinking organizations – the question is no longer whether to outsource a “process” (embodiment of an organizational capability) to a service Provider (who is more capable in that process) but rather how to outsource every single process in the value chain! This would be possible only when for every process to be outsourced; it is possible to find a “capable” service provider. This newly emerging philosophy of process outsourcing is being called as “global capability sourcing” (Gottfredson, Puryear, and Phillips (2005)) or strategic sourcing (Holcomb and Hitt, 2007). Many managers view outsourcing as the only way to keep a business competitive into the twenty-first century.

1.1.2 Telephony industry in Kenya

Over the last three or four years there has been steady growth in the number of telecoms operators outsourcing specific business activities and, in some cases, the entire operation of their networks. Although failed outsourcing contracts generate tremendous amounts of adverse publicity and, even worse, damage prospects for success, there is evidence that outsourcing has been beneficial for many of the telecoms operators that have embraced it as a viable strategy (Mason, 2006). Examples are cited of orange who has done outsourcing of its mobile-network operations and maintenance for five years to Nokia Siemens Networks (NSN), which in turn will subcontract first-line maintenance. Vodafone is to outsource both operations and maintenance to Ericsson. (ZDNET, 2009).

Outsourcing of voice telecommunications is a mature and prevalent practice in the industry in Kenya for example Telkom orange which has outsourced its call centre services to ken call which is a service provider. Telecom operators worldwide are increasingly considering outsourcing the management of their networks to companies like Nokia, Alcatel-Lucent and Ericsson in order to lower costs, increase capabilities and/or focus on other strategic imperatives. (Peyo,2009). Operators are increasingly shifting their emphasis from the engineering-centric stuff like running networks to customer-centric stuff like marketing, segmentation and customer service .They see networks as a necessary asset that allows them to do what they do, but running those networks is not necessarily a core competency anymore. Network services outsourcing has taken off among wireless providers in Europe and Asia, where all providers operate using common GSM technology. In those countries, regulators force large operators to open up their networks to competitors at very low rates, and that creates incentives to make running the network as efficient as possible to maximize margins. (Dawson, 2009).

1.1.3 Safaricom limited

Safaricom is the leading provider of converged communication solutions in Kenya. In addition to providing a broad range of first-class products and services for Telephony, EDGE, Broadband Internet and Fax, Safaricom seeks to uplift the welfare of Kenyans in direct ways through value added services and financial support for community projects. Safaricom, which started as a department of Kenya Posts & Telecommunications Corporation, the former monopoly operator, launched operations in 1993 based on an analogue ETACS network and was upgraded to GSM in 1996 (license awarded in 1999). In today's intricately networked and globalized economy, the ability to enable efficient and meaningful collaboration among colleagues, customers, partners, and suppliers is now a business imperative you need to stay nimble and flexible to maintain market share and you need to do all this across organizational areas, supply chains, and geographic regions. Better collaboration means faster decision making and time to market, along with improved customer intimacy and cross-cultural communications. This scenario is possible through the sharing of richer content, and the ability to use scarce resources more efficiently.

1.2 Research Problem

Though outsourcing decision can often be a major determinant of profitability making a significant contribution to the financial health of the company (Yoon and Naadimuthu, 1994). There is evidence to suggest that organizations are not achieving the desired benefits from Outsourcing. Further, as suggested by Hansen, Schaumburg-Müller, Pottenger (2008) and Harland, Night, Lamming, Walker. (2008), there is a gap in current research concerning a more holistic study of outsourcing, its risks, benefits, Challenges and opportunities – including economic and social factors – and more Research is needed into observing and theoretician implications at different systems levels, namely at the macro- (national), Meso- (sector) and micro- (firm) level.

It is expected that outsourcing as a business strategy will begin to emerge strongly with the onset of stiff competition, price wars and technological disruption within the industry. As a result, telecoms in Kenya are expected to develop strategies that will enhance their strategy. In Kenya various studies have been carried out in the area of outsourcing of services. Thus is evident of Kinyua (2000) who covered outsourcing of financial services. He found out that small firms were less likely to outsource compared to big firms and local companies were also likely compared to foreign or joint. Kirui (2001) followed a case study of British America Tobacco Kenya Limited. (BAT). He concludes that BAT improved on customers but anticipated logistics cost reduction was not realized after outsourcing some of its distribution activities.

Motari (2000) did a survey of outsourcing for manufacturing firms in Kenya. He saw evidence of outsourcing but there was no evidence of strong relationship and commitments. He concludes that outsourcing if carried out properly is a very important practice for firms in Kenya that may want to maintain competitive advantage. He further suggests a study to be carried out from the point of view of the service provider.

Luta(2003) looked at outsourcing of services at the East Africa Breweries Limited(EABL). He found that EABL was able to reduce the expected cost and improved service delivery to its customers after outsourcing some of its services. Ayugi

(2007) studied outsourcing at Wrigley Company (East Africa) Limited and emphasized on communication to attain efficiency to the outsourced services. He found that without proper communication outsourcing will not work and may increase some operating costs. All these studies did not look at the effectiveness of outsourcing. This is the knowledge gap the study is designed to fill. Therefore this research will look into business process outsourcing in Safaricom Ltd establishing the effective perspective and the benefits in implementation. This study will be guided by the following research question formulated to aid in gathering the information regarding the research topic. The question been what is the effectiveness of business process outsourcing in Safaricom limited?

1.3 Objective of the Study

To determine the effectiveness of business process outsourcing in Safaricom limited Kenya.

1.4 Value of the Study

This study aims at assessing the extent to which the organizations in the Telephony industry (Safaricom Limited) will benefit from the study of the effectiveness of outsourcing. This may result to a sustainable competitive advantage to Safaricom on how effective outsourcing is to the organization and justify its suitability as a strategic choice. Researchers and scholars may use the research report as a point of reference and source of secondary data for future research on the effectiveness of outsourcing. Corporate Organizations will provide information on how strategic outsourcing can be applied to respond environmental changes and turbulence environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the topic of business process outsourcing in Safaricom Limited Kenya. The chapter is structured on the basis of the research questions: outsourcing as a strategic choice, value of outsourcing and benefits of business process outsourcing implementation.

2.2 Outsourcing as a strategic choice

Strategy is derived from the Greek word “the art of the general” and its practice has its Origins well anchored in the military. Businesses started making use of strategy in the 1960s and thus came the term “strategic management”. Strategic management has been defined as “consisting of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantage.”(Dess, Lumpkin and Taylor, 2004). Barney’s (1991) definitions for these terms are quite explicit. A firm is said to have a competitive advantage when it is implementing a “value creating strategy” which is unique not being implemented at the same time by other competitors.

A competitive advantage is said to be sustained only if it still prevails after competitors have stopped trying to copy it. Strategic management involves a series of non-linear and inter-dependent processes of strategy analysis, strategy formulation and strategy implementation (Dess et al ,2004). Barney’s (1991) definitions for these terms are quite explicit. A firm is said to have a competitive advantage when it is implementing a “value creating strategy” which is unique, i.e. not being implemented at the same time by other competitors. A competitive advantage is said to be sustained only if it still prevails after competitors have stopped trying to copy it. Strategic management involves a series of non-linear and inter-dependent processes of strategy analysis, strategy formulation and strategy implementation (Dess et al ,2004).

In addition, according to Mintzberg (1994), strategy is seen as a stream of decisions and actions ;he further defines strategy as a plan ,ploy ,pattern ,perspective .It is therefore seen as the process of deciding the future cause of business and therefore organizing and steering that business to success by achieving its key objectives.Saxena and Sangeeta, (2009) argue that ,for a long time business processes were considered as the means through which organizations carry out their work, and improving the performance of business processes would improve the productivity and quality of the organizations, thereby making them more competitive.

However, with the emergence of the business process reengineering movement, many organizations have successfully been able to compete on the basis of organizational capabilities, which are largely made instrumental through the organization's business processes. Competitive strategy enables a business to 'maximize the value of the capabilities that distinguish it from its competitors'. Competitive strategy requires a structural analysis of the industry in terms of the threat of new or potential entrants, product or service substitutes, buyer bargaining power, supplier bargaining power and competition among rivals.

This analysis allows the company to develop a strategy for outpacing competitors, based on cost, differentiation or niche focus. (Fernandez and Kekale, 2007).Strategic outsourcing allows a company to focus its energies and resources in those areas that comprise its core competency. (Lacity, 2004).In today's business environment of rapid change, social, political and economic volatility, globalization trends and technological advances, corporations worldwide are re-examining and redesigning their business practices in an effort to remain competitive.

They are engaging in a range of creative strategies, both internal and external, to 'concentrate the firm's resources on a set of core competencies where [the firm] can achieve definable Preeminence and provide unique value to customers'. The changes come under many names: downsizing, rightsizing, reengineering, total quality management, streamlining, reinvention, virtual corporation, de-layering, and outsourcing (Glagola, 2004).

Outsourcing in simple terms is defined as the movement of business processes from inside the organization to external service providers (Click and Duening, 2005). According to Gartner Group (2004), it is the delegation of a business process to an external service provider who owns, administers and manages it, according to a defined set of metrics. In the initial stages, organizations outsourced only their non-core peripheral processes primarily to reduce their costs and improve their performance. Though this type of outsourcing delivered benefits to the organization and impacted directly upon the bottom line, it did not help them in impacting their competitive position.

However, lately with the emerging strategic focus on outsourcing, it is extended to non-core yet mission critical processes such as finance and accounting, human resources and customer support (Linder, 2004). Thus, outsourcing is evolving into a strategic process for organizing and fine-tuning the value chain. For many of the forward-thinking organizations – the question is no longer whether to outsource a “process” (embodiment of an organizational capability) to a service Provider (who is more capable in that process) but rather how to outsource every single process in the value chain! This would be possible only when for every process to be outsourced; it is possible to find a “capable” service provider. This newly emerging philosophy of process outsourcing is being called as “global capability sourcing” (Gottfredson, Puryear, and Phillips (2005)) or strategic sourcing (Holcomb and Hitt, 2007).

Rapid changes in the business environment require senior management to adopt strategies that focus on both current success and to invest in those activities that will promote a competitive advantage for future success. One widely recommended technique for improving one’s competitive position is “outsourcing” (Maiga and Jacobs, 2004).. It stems from the words out (referring to exterior) and source (origin or resource), which, in business terms, means that certain activities are acquired from outside the firm (Teng, Cheon, and Grover, 1995). The term is often used as a synonym for the decision to outsource, with expressions such as “make or buy”, “integration/disintegration of activities” or “outsourcing” being common (Gilley and Rasheed, 2004; Espino-Rodri´guez and Gil-Padilla, 2005).

2.3 Company Readiness for Business Process Outsourcing

Superficially, it would seem that the most obvious reason for outsourcing would be to make cost savings. However, the “make or buy” decision at the heart of outsourcing is often quite complex. While short-term cost savings are usually seen as the major reason for outsourcing, recent research has shown that they are not the only one. A desire to achieve “best practice”, to improve service quality, to focus upon the “core competences” of an organization, and to utilize new technology are also prominent reasons offered by organizations (Kakabadse and Kakabadse, 2002).

The criteria used to evaluate outsourcing decisions may be multidimensional and intangible; besides difficult to estimate cost savings, the firm must consider intangible effects such as freeing up managerial time and possible dependence on the vendor (Sohal and Beaumont, 2004). This critical stage involves a value chain approach to the outsourcing process. Once an organization is mapped to the value chain, the core and non-core activities of the organization are identified and defined. The next stage would entail analyzing the capabilities of the sourcing company in the core activities identified in relation to potential external sources. As part of this analysis the costs associated with either retaining the activity in house or outsourcing the activity should be measured. At the end of these stages the analysis may lead to either keeping the activity internally or outsourcing the activity (McIvor, 2004).

If the preferred option is to outsource, then the next stage involves forming a relationship with a supplier which maximizes the benefits of the organization. In order to achieve the most beneficial sourcing arrangement, the organization may pursue a buyer-supplier relationship ranging from partnership to competitive bidding (Nordin.F, 2005). Outsourcing can be an effective way to reduce costs, free-up capital and improve quality and service. Initially, it is critical to assess if the circumstances and timing are right to pursue outsourcing.

A company’s readiness can be assessed based on a number of requirements, including: establishing that there are issues which could be resolved by outsourcing, such as cost, competence or management focus; identifying if there are questions to be answered first

before further considering outsourcing, including the capability of the local market or restrictions in the collective bargaining agreement; and confirming the cost effectiveness of outsourcing as a means to achieve strategic advantages. (Wernerfelt, 2004). Outsourcing is a useful tool that can be used to streamline a budget if an organization needs to cut down on their spending. However, like other business tools, outsourcing can also have negative financial affects on a company if the organization is not ready for the task which takes business matters and control out of the company on a marginal scale. When it comes to deciding if a business is ready to outsource, an organization must first analyze their 'core competency.' The theory of core competency was first introduced in 1990 by Harvard Business professors Gary Hamel and CK Prahalad. The definition of an organization's competency exists in how they are able to harmonize work activity and technology to improve its specific area of expertise. Adding outsourcing to an organization changes this balance and can upset the business processes of a company. Thus, certain areas of a company must be investigated before outsourcing is attempted.

While it may seem simple to avoid all core competencies and just outsource other matters, this is no longer the answer as business needs have become highly integrated. For example, while you may be able to outsource something like business production, if your customer service is not up to par anything you gain may be lost by the high costs of other in house activities. With this in mind, you should consider outsourcing interrelated areas regardless of what type of competency they involve given that the results of both influence each other. However, if you are not sure how to properly divide outsourcing needs between core and non-core competencies, you may want to direct your outsourcing efforts in another direction.

There are areas of an organization that are non-core competent that tend to be more ready for outsourcing than others. For example, collections and receivable departments generally work on their own accord and can be successfully outsourced. The first step of your company when it comes to analyzing organizational areas that are ready for outsourcing is to separate your core competencies into three different categories as

recognized by most business professionals. The three categories are Basic Operations, planning, budgeting and accountability, and general management. The aim of each business should be to develop each of these areas with a focus on how they can be self-sufficient enough to allow outsourcing to become an option. Keep in mind that since many employees that have positions within these categories are responsible for a variety of tasks the competencies that are assigned to each group will need to be tailored specifically. Evaluate each area for organizational ease in terms of outsourcing. From here, each of these groups needs to be evaluated into three levels of competency. The different levels indicate the level of tasks that the groups perform and indicate whether outsourcing will be an option for your organization's needs or not. In general, there are also three levels that can be assigned to each group or section of a group's functions. In order to place a category into a level the abilities, skills, and knowledge of employees within that sector needs to be evaluated. The level one involves the companies readiness for outsourcing which involve a task that is assigned a level one distinction generally requires one to three years experience to complete. The task or group's focus within the business is related to basic, fundamental, or routine activities within the organization. Given the simplicity of these employees' job tasks this is a prime sector in which outsourcing is a distinct possibility.

Level two involves accessing the possible outsourcing candidate's activities. This is the middle level of expertise and typically consists of activities that require at least four years of professional experience. The task or group's focus within the business generally is focused on a specific area, applications, proficiency, or local missions. Due to the fact that this group needs to be familiar with the organization's focus outsourcing is a possibility but workers will need to be highly skilled and possibly brought into the organization for a brief time for training. Training managers from an outsourcing team who also teach their .Level three involves looking at the Organizational functions that should not be outsourced. This is the highest level of competency within your company and involves positions held at the senior level such as a supervisor or team leader.

The activities of these employees are high level and include expertise, extended operations with multiple organizations, complex problem solving, or high program

impacts. For this reason outsourcing at this level is generally not recommended and would be a highly risky practice. In other words, organizational employees or categories that qualify as level three should not be considered an outsourcing option otherwise the business may be placed in jeopardy. Outsourcing is an extremely practical tool utilized by many different companies. However, it is not a one size fit all tool such as an operating system for customer PCs. Each potential outsourced task must be approached gently with an eye on the final goal: productivity for an organization. If an organizations overall value is sacrificed than outsourcing no longer becomes a viable option.

New data from one of the industry's leading players, digital realty trust, suggests that a growing number of large companies are turning to an outsourcing model for their data centers. An annual survey of large data center users found that only 51 percent of respondents who plan to expand their data centers in 2011 are considering the do-it-yourself approach for any of their upcoming data center projects, a decline of 6 percent from last year's results. The survey, conducted by Campos Research, also found that 60 percent of respondents pursuing data center expansion in 2011 plan to lease space from a wholesale provider rather than building their own facilities, an increase of 7% over last year.

It's not surprising that Digital Realty believes demand will be high, since the company is in the business of building and leasing data centers. But the findings align with the company's tracking of demand for data center space, which showed a significant jump in the first quarter of 2011. Digital Realty says it is now tracking potential customer requirements totalling about 2 million square feet of space, up from its previous level of 1.4 million square feet. One key finding is how decisively the industry is moving toward a model that relies on the expertise and resources of data center specialists. The lease vs. own analysis has long been a consideration for the corporate enterprise customer. Increasingly, enterprises appear to be favouring the lease model as fewer companies are choosing to go it alone on these capital-intensive projects.

Campbell, (1995) Outsourcing of work to other companies has caused a seismic shift in how companies around the world do business. It started with routine and administrative

processes like server hosting for IT groups and distribution logistics for manufacturers. But as companies have gotten more experience, they have outsourced more complex projects and processes. An important area of outsourcing for companies in Silicon Valley has been to outsource software product development projects. Outsourcing these projects not only permits these companies to hire fewer permanent employees, it also enables them to gain access to quality engineers and project managers, to work around the clock with engineering teams in other parts of the world, and to reduce their costs. Some companies have been more successful with this model than others. The successful companies have learned some hard lessons along the way. Wondering what those lessons are? Here are characteristics we've seen of companies that are successful with their outsourced application development ventures.

2.3.1 Resources to Outsource

One of the strongest and most sustained trends over the past years has been the move towards outsourcing. With increased fervor and conviction, organizations have now sought to restructure, build flexibility and reduce costs by contracting out services and activities traditionally provided in house. The rationale for this movement is simple and compelling. If contracting out parts of the operation is cheaper than doing it yourself, it is a clear case for outsourcing. This enables organizations not only make efficiency gains but also allows them to focus more clearly on activities that it can better perform-in-house (Hendry, 2005).

Turning to the resource based view (RBV) of the firm, this provides another perspective on what activities might be considered for outsourcing, and also whether outsourcing is necessarily of advantage to an organization. According to the RBV, only those HR activities that could not meet the criteria of deliverability, inimitability, durability and non-substitutability should be outsourced (Barney, 1991;Boxall, 1998; Priem and Butler, 2001). The argument hinges upon the identification of what are called "core competences" that are intrinsic to that organization. These attributes or qualities are to be nurtured and retained in-house. Lepak and Snell (1999) argue that externalization can be a way of providing internal coherence, by allowing a concentration upon core

competences. But by implication, this would mean that the selection of activity for outsourcing would be contingent upon sustaining the “core competences” of the organization and in certain circumstances this might preclude a consideration of outsourcing. The functions which lend themselves to outsourcing usually represent support services which are not part of the core competences of the organization. These activities are usually routine (even if critical or highly technical); well delineated; can be

measured and managed at arm’s length; and are readily provided by established suppliers in the marketplace, in a competitive environment (Campbell, 2005). So, increasingly, businesses looking to focus resources on core capabilities outsource their peripheral functions. Resources are typically redirected to where they make the greatest positive impact, namely the organization’s core functions. The resource based view theory of a firm emphasizes that resources internal to the firm are the principal driver of a firm’s profitability and strategic advantage (Barney, 1991; Wernerfelt, 2004).

Barney categorized resources into three groups: physical resources such as plant, equipment, location and assets; human Resources such as management team, knowledge and skills; and organizational resources such as culture and reputation. Resources enable a firm to conceive of and implement strategies to improve its efficiency and effectiveness. Therefore, organizations retain strategic resources internally that enable them to sustain competitive advantage (Mahoney and Pandian, 1992).

In order to understand the management implications of the present enhanced outsourcing Complexity, it is desirable to develop a classification of business as viewed by both the client and the service providers (Saxena and Bharadwaj, 2007). There have been a number of classifications of business processes but all of them have been either from the client perspective or from the service provider perspective. For instance, from the clients perspective, processes have been classified as traditional, peripheral, critical and strategic (Jenster, Pedersen, Plackett and Hussy (2005)); as core, critical but non-core and non-core non-critical (Dole and Switser, 1998); critical, key and support (Click and Duening, 2005).

The key to deciding what to outsource rests with those elements that differentiate the organization, especially in the areas of value and quality. While management must own those operations that define a company's core business processes, other functional areas that are non-core should be considered potential candidates for outsourcing. By outsourcing non-critical functions, a company can leverage its financial resources, share its financial risk, and allow management to concentrate more fully on core business activities (McIvor, R.2005).

2.4 Deriving Value from Business Process Outsourcing

Organizations around the world are looking for new approaches to maintain or develop competitive advantage. Outsourcing can be such an approach. Outsourcing focuses on two strategic ways of developing a competitive advantage: first, concentrating the organization's resources and investments on what it does best – called core competences; and second, outsourcing all other activities for which the company has neither a strategic need nor a special capability. (Campbell, 2005). Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance (Lilly, Gray and Virick, 2005). According to the survey, conducted by Accenture and the Economist Intelligence Unit, two-thirds of the respondents – all of whom had been outsourcing a major business process for at least two years – agreed that outsourcers who know how to manage the process can enhance their company's performance and achieve a high level of satisfaction with the results (Lacey and Blumberg, 2005).

In recent years, firms have been developing various kinds of strategies in order to solve problems related to the cost, quality and speed of services. Downsizing, elimination of some functions or processes, developing strategic relationships through franchising or contracting out or leasing arrangements can be seen as examples for these decisions. Outsourcing is also one of these strategies. Firms that outsource any function do so with the idea that the company's performance will increase (Lilly et al., 2005).

2.4.1 Reasons for Business Process Outsourcing

Outsourcing is essential to companies. Successful companies share the same success factors; they have clear understanding of their core-activities (Barthelemy, 2003); have done adequate research and planning; and most importantly have developed clear objectives, goals and expectations of outsourcing activities (Elmuti, 2003).

As businesses struggle to reduce costs and grow revenues, outsourcing initiatives are under way in many large, medium and small global companies. In a recent Gartner Group survey, 73 percent of mid-tier firms indicated that they outsource some piece of their enterprise business processes. Outsourcing strategies are considered the “silver bullet” to resolve the problems in many organizations. Outsourcing has been touted as the ideal way for organizations to reduce costs, focus on core business processes, improve services, enhance skills, reduce time to market and increase overall competitive advantage. (Power, Bonifazi and Desouza, 2004). Outsourcing has increasingly become an important strategy that can significantly assist organizations to leverage their skills and resources to achieve greater competitiveness (Quinn and Hilmer, 1994; Welson, 1996).

Owing to the differences in economic and infrastructure development between developed and developing countries, it is likely that there will be different reasons for outsourcing. While many drivers are unique to specific organizations and industries, there are some common key factors that motivate organizations of all industries to make outsourcing decisions. These factors can broadly be categorized as economic, strategic, and environmental (Lau, 2006). There is a variety of common reasons for companies to outsource. These include: reduction and control of operating costs; Improving company focus; Gaining access to world-class capabilities; Free internal resources for other purposes; The lack of resources available internally; To accelerate re-engineering benefits; Difficult to manage/out of control function; To make capital funds available; Sharing risks; Cash infusion; Improving the quality and efficiency of an existing outsourcing service. Within the last decade, most academic studies have focused on understanding outsourcing decision determinants and outsourcing process control (Gilley, Greer and Rasheed, 2004).

2.4.2 Benefits of Business Process Outsourcing

Outsourcing otherwise known as subcontracting is the strategic use of resources outside the company to perform tasks that are usually handled internally by the company itself. In today's competitive world, successful outsourcing is a powerful tool for companies to generate value and gain competitive edge over rivals. Companies can focus on their core competencies and rely on their outsourcing partners for non-critical processes and operations. The formed strategic alliance can normally create synergy amongst companies that can lead to short and long term benefits. (khong ,2005)

Outsourcing focuses on two strategic ways of developing a competitive advantage: first, concentrating the organization's resources and investments on what it does best – called core competences; and second, outsourcing all other activities for which the company has neither a strategic need nor a special capability. (Mani and Whinston,2006). Outsourcing allows companies to maximize the return on their internal resources; maintain and develop core competences as a way of providing barriers to protect against present and future competitors; make full use of external capabilities, innovation and investment; and finally, provide better service, quality and cost to the customer. (Lacity, Willcocks and Feeny, 2004).

Many companies have had great success in using outsourcing to gain competitive advantages. Ford Motor Company found that many of its internal suppliers' quality practices and costs were nowhere near those of external suppliers during its "best in class" benchmarking on the Taurus-Sable product line. In addition, many Japanese companies have turned to outsourcing in an effort to improve the efficiency and quality of their own processes (Ploetner and Ehret 2006). Gilley and Rasheed (2000) , proposed that organizational performance improves for three reasons. First, an increased focus on a firm's core competencies is an important benefit associated with outsourcing (Dess et al., 1995; Gilley and Rasheed,2000; Kotabe and Murray, 1990; Venkatraman, 1997). The evolving literature on core competencies has been concerned with the "make-or-buy" decision that every firm faces. The outsourcing of non-core activities allows the hotel to

increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other firms to oversee tasks at which the outsourcing firm is at a relative disadvantage. This focus can improve results by allowing the firm to be more effective, more innovative and more skilled in those activities (Bolat and Yilmaz,2007).Companies outsource mainly to derive economic factors. This can be broadly classified as cost reduction, cost saving and capital reduction. A firm's main objective would be to improve profitability, operating efficiency, to add value to product, improve cash flow, increase efficiency, make capitals funds more available for core areas and finally improve return on assets. (Trunick ,1989 and Richardson ,1990).

Outsourcing activities with low strategic value can lead to lower costs and thereby improve the organizational results (Espino-Rodríguez and Padro'n-Robaina, 2005). Firms are increasingly viewing outsourcing strategies for reducing or controlling costs. Empirical research also suggests that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley et al., 2004; Gilley and Rasheed, 2000).Further, strategic motivation decisions also realign a business processes towards outsourcing. This would further necessitate acceleration of business process re-engineering and critical success factor is to focus on core competence (Corbett, 2004).

The firm's performance would be improved and is able to achieve competitive advantage, improve business focus, increase competitiveness, leverage the firm's skills and resources and enhance customer satisfaction (Clott,2004;Prahalad and hamel ,1990:Quinn and Hilmer,2004 and weerakkody et al,2003). The organization is not limited to its own capabilities; it can tap into a stream of new ideas and improvement potentials it could not possibly generate itself (Campbell,2005).Within this era of turbulent business environments, flexibility enhancement is critical to be able to achieve innovation and creativity.(Linder,2004).As a result ,this would reduce constraints of organization's own productive capacity, convert fixed costs to variable costs, increase responsiveness to market change and reduce risks.(Quinn and Hilmer,1994;kakabadse and kakabadse,2004;Jennings,2009 and Lynch,2004).

Increasing competitive pressures due to globalization. Institutions are being outperformed by competitors in areas of their business where they are not specialists. As a result, they have assessed the areas where they have market-leading capabilities and shed those parts of their businesses that are lowering overall efficiency. The potential for technology to create more efficient business processes. This has resulted in the realization that institutions have to change their own business processes to remain competitive (Frost, 2005). For some companies, outsourcing has enabled them to focus on their core competencies and improve overall performance while leaving the non-core activities to specialized third-parties (Thomas, 2004).

Outsourcing can also provide companies with competitive advantage like better access to new markets, bigger pool of resources, higher level of skills and leading technology (Kolawa, 2004). Overall successful implementation of outsourcing strategy will help companies to improve organizational competitiveness and Financial performance, cut cost, increase capacity, productivity, efficiency, and profitability (Elmuti, 2003). In summary, firms that outsource any function do so with the idea that the company's performance will increase (Lilly et al., 2005). One of the main benefits of outsourcing is the fact that you can save a lot of money, this is especially true if you outsource to overseas companies or individuals.

I outsource some of my article writing to a woman in the Philippines and the cost savings I have achieved by hiring someone overseas as opposed to here in the U.S. has been staggering. Saving money, though, is not the only benefit of outsourcing. Outsourcing can help a business to increase their profits as well as their productivity.

When you outsource repetitive and time consuming tasks, you can spend more time focusing on ways to expand your core business model . When you are able to spend more time on your business as opposed to wasting time on inconsequential tasks, you can really brainstorm and grow your business. When small and mid-size businesses outsource work, it allows them to focus more on their core competencies. In many cases, this approach to outsourcing is a smart way for businesses to add value to their operations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the research methodology that will be used in this survey. It discusses the research design especially with respect to the choice of the design. It also discusses the population of study, data collection methods as well as data analysis and data presentation methods to be employed in the survey.

3.2 Research Design

Research design constitutes the blueprint for the collection, measurement, and analysis of data. The research design used was a case study. It involved an indepth analysis of the effectiveness of business process outsourcing in Safaricom Limited. It is a plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. (Cooper and Schindler, 2001).

3.3 Data Collection Methods

Data was collected using interview guide. The interview guide is structured and respondents were fully informed about the purpose of information collection. The interview guide was administered to the Safaricom retail managers (Nairobi region), head of departments that will include marketing, human resource, call centre, legal, retail, engineering and also research. This will also include the head of the strategy and the CEO'S office.

3.4 Data analysis

This study is content based analysis and was used in the analyzing the in-depth qualitative data. The study focus on the effectiveness of the business process outsourcing in Safaricom Limited. The recorded interviews were edited for completeness and consistency before analysis. The method of analysis has been successfully used in similar studies by Gitonga (2008) and Tanui (2008).

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter examines the analysis of factors that could affect management decision to outsource and the supposedly value that is to be received from outsourcing. The data was collected by an interview guide and analyzed through the content method. This study is based on a case study of the different department of Safaricom Limited which is the leading Mobile telecommunication company in Kenya. This study is implied as a reference of the general state of the telecommunication industry in Kenya. Therefore briefly focuses on the findings of the study undertaken through the examination of overall effectiveness of the business outsourcing.

4.2 General Information

This section involved the backgrounds of the respondents. This involves their respective departments, rank in the organization, the gender, age, and how long they have worked in the organization.

4.2.1 Response Rate

A total of 30 interview guide were produced and administered to the senior, mid level management and supervisory staff of different department of Safaricom Limited. At the end of the study, 22 useful questionnaires were coded and analyzed. This was due to the fact that all questionnaires were issued to staff in a single company and that there was good follow up on collection. This high response rate enhances confidence for the generalization of the study's findings.

4.2.2 Different Management Levels of the Respondents

The respondents were from senior management, mid level management and the respondents from supervisory. The concentration on management is an indicator of the criticality of this level of management as they are the front runners in management and decision making of Safaricom Limited.

The research involved mainly parties that are involved in decision making i.e. the management and the departments that are mainly affected by outsourcing. As our focus is mainly to determine the effectiveness of strategic business outsourcing and how the Safaricom Kenya can derive value out of the strategy, the result was to show how many departments have the knowledge or involved in the strategic outsourcing process.

4.2.3 Years of service at Safaricom

It is clearly evident that most of the respondents have worked for Safaricom for 3-5 years and more. This gives credence to their knowledge of the company operations and has had enough time to transition with the company through the various business growth stages.

4.2.4 Respondents Gender

The respondents gender indicated the majority of management staff is mainly male and most of the female staffs are in Marketing and Call Center Department .This shows a general composition of management in terms of both genders.

4.2.5 Age of respondents

Maturity of the period one has worked in an organization indicate their level of involvement in strategizing of implementing the strategies laid down. Those in the management level and to be specific the mid level management was found out to be between the ages of 31-35 years. Those of 36 years and over were concentrated in the senior management. Majority of the staff with 36 years and over were found to be in management and also had worked with the company for a long time. This implies they were involved with the company growth outsourcing strategy longer thus the assumptions in their view.

4.3 Activities that are candidates for outsourcing

The respondents were very categorical on the activities that could be outsourced. The respondents agreed that network management was a potential activity for outsourcing. This implies network management is one of the non-core activities that could be outsourced.

The respondents felt customer service could be outsourced to an outside company. This implies the respondents understand the sensitivity of customer's information to management and would not want to entrust the service to a third party. This could also be based on management's view of other factors such as lack of comparative advantage compared to the big multinationals that outsource the call center.

Product development showed concern as an activity that should not be outsourced. This is an indicator that customer service, marketing and product development are activities that are core to Safaricom Limited. With regards to communication as a strategy, some of the respondents acknowledged that the activity could be outsourced. On further scrutiny, most of the respondent were answering this question with reference of communication as public relation and not service provision by Safaricom Limited. This implies public relation could be outsourced to competitive firm.

The researcher found out that the respondents agreed that equipment hiring was an activity that could be outsourced to a vending company. This implies majority of the respondents concur that equipment hiring can definitely be outsourced. On the other hand, transmission services also had respondent acknowledging that it was an activity that could be outsourced because its not a core functionality for Safaricom.

Maintenance and operation were other activities attracting support for outsourcing. Maintenance and operation, equipment hiring and transmission indicated the non-core business of the company which could be easily outsourced leaving Safaricom Limited concentration in its main business of voice, data and money transfer services

In terms of ranking, maintenance and operations, Transmission and Equipment hiring are the highest. While Customer service, Marketing and product development nullified by safaricom management as candidates for outsourcing. Based on this results this implies as a telecommunication company this activities may be non-core but are strategic assets offering competitive advantage thus must be handled from within.

4.4 Company's view on outsourcing

From the respondents view, it is a clear indicator that the company has to maintain with the management of the core company business that gives the company strategic advantages over competitors. Further this also implies that only non core activities are candidates for outsourcing and all activities and processes including those that form part of competitive advantage but excluding core are possible candidates. There is a clear indicator that in the selection of outsourcing as a strategy management must clearly evaluate the activities that could be outsourced. This implies that even non core activities could still be of strategic advantage to a company. Strategic business process outsourcing is an integrated part of Safaricom Limited business planning process.

This was due to the fact that the respondents were mainly managers who had knowledge of the company or departmental business strategies. This implies that Safaricom engages fully its organization in strategy making process by use of business planning tools which helps management align its strategies to the business realities. Business strategies are should be initiated by the whole company in general. Confirmed by the top management and approved the board. In the case of Safaricom Limited, the respondents agreed outsourcing decision should be conducted at group board level. This is important as it is the board that is mandated by the shareholders as their custodian and first level with regards to wealth creation. The researcher also found out that there are no other opinions available rather than outsourcing that could be used as a key business strategy for Safaricom. Business process outsourcing is believed to be a strategic tool. The three different levels of management surveyed showed a strong support of outsourcing as a strategy to enable the company to achieve its main function of wealth creation and revenue generation for its shareholders.

4.5 Value from outsourcing

As managers are for new approaches to maintain or develop competitive advantage and become industry leaders the study shows that business process outsourcing by Safaricom Limited can be such an approach. According to Campbell (2005), Outsourcing entails focusing on strategic ways of developing competitive advantage and concentrating the

organization's resources and investments, while outsourcing all other activities for which the company has neither a strategic need nor a special capability can be industrious. Our study shows that the respondents did not believe that all activities and processes are potential candidate for outsourcing. This is an indication of only non core activities should being outsourced. These findings concur with the view of Fernandez and Kekale (2007), who stated that Competitive strategy enables a business to 'maximize the value of the capabilities that distinguish it from its competitors' through outsourcing of non-core activities to a firm.

In order to evaluate which activities the company able to outsource, the respondents strongly disagreed that marketing was potential activity for outsourcing. While some of the respondents agreed that improve in product development was not one of the benefits brought about by outsourcing. This is a reflection of the importance of this department to Safaricom Limited. This findings show evidence that safaricom carefully analyses its resource based view which provides another perspective on what activities might be considered for outsourcing, and also whether outsourcing is necessarily of advantage .

The findings agree with Barney, (1991);Boxall, (1998); Priem and Butler, (2001) who stated that according to the RBV, which hinges upon the identification of what are called "core competences" that are intrinsic to that organization. Such attributes or qualities are to be nurtured and retained in-house.The research also shows outsourcing is attractive to Safaricom Limited senior management because it improves some of the dimensions of organizational performance of the manager who took the survey responding positively on the question whether outsourcing really a strategic tool.

The findings in this study indicate that on average, the respondents were in agreement that with the process of outsourcing done right, safaricom can enjoy the values brought about by outsourcing, example increased subscribers, cost reduction , revenue growth, improved operation, network clarity and increased competitive advantage. This is an indication that Safaricom Limited can target outsourcing as a long term strategy and not short term. This is in agreement with Lacey and Blumberg (2005), outsourcers who know

how to manage the process can enhance their company's performance and achieve a high level of satisfaction with the results. According to (Lilly, Gray and Virick, 2005), "In recent years, firms have been developing various kinds of strategies in order to solve problems related to the cost, quality and speed of services. Downsizing, elimination of some functions or processes, developing strategic relationships through franchising or contracting out or leasing arrangements can be seen as examples for these decisions. Outsourcing is also one of these strategies. Firms that outsource any function do so with the idea that the company's performance will increase.

The findings also shows that the values that can be accrued through outsourcing include focusing on strategy which the managers agreed while freed up of internal resources, incorporating outsourcing into the firm's value chain to maintain competitive advantage and take advantage of technology. These should be incorporated into the outsourcing strategy. Areas that did not indicate positive response to outsourcing was mainly improved research and product development. This is to protect company's secrets and advancement so as to increase their competitive edge.

The alternative for outsourcing in the outward purchase of the equipment which have a high initial cost. A cost benefit analysis should be prepared to show the difference between outsourcing and purchasing the equipments. It also creates additional cost in terms of staff employment, procurement and management of the facilities acquired.

Safaricom Limited can also gain values through outsourcing. The only resistance was that the company will obtain additional flexibility through outsourcing. Staff resisted outsourcing as a strategy with a claim it could cause loss in employment for others. Outsourcing some departments like customer service, retail and marketing will affect acquisition and retention of customers as the firm does not have direct relation with their clients.

Main values that could be gained through outsourcing include:-Freed up internal resource and concentrate on core competence, Take advantage of technological advances, Focus on strategy, Reduce or eliminate internal cultural differences, Integration into the firm's value chain to maintain competitive advantages and obtain additional flexibility.

Outsourcing of product development, customer service and marketing disconnects Safaricom Limited from their main customers. The outsourced firm will not intently provide required resources for management purpose. In product development, it is not guaranteed that secrets and that the same product will be sold to competitors.

Analysis of benefits and values that are to be gained by Safaricom Limited need a thorough cost benefit analysis assessment to enable Safaricom Limited differentiate on advantages gained through outsourcing the same activity to different vendors e.g. equipment hired, management of the communication honeycomb mast, network clarity. This will help with external analysis especially service provision across regions that Safaricom Limited covers.

The company can gain the advantage of technological advances. Safaricom Limited being in technological oriented industry can use outsourcing as a method of obtaining state of the art technology the moment advances are done while still focusing on its main objective and strategies. Other respondents indicated that Safaricom can gain from freed up resources. These resources example technology, human resource and finances should be assigned to other core department of the company with the focus of gaining additional competitive advantage against competitor

4.6 Benefits of Outsourcing

The results of the study show that outsourcing is a vital strategy to enable company concentrate on its key activities in areas it has competitive advantage as indicated by the respondent who agreed that outsourcing is a fully integrated Safaricom Limited business planning process. Further, the company has to list its competent function and what activities it is able to outsource, while the managers have to indicate the benefits they are expecting from outsourcing. According to Barthelemy and Elmuti (2003), Successful companies share the same success factors; they have clear understanding of their core-activities and have done adequate research and planning; and most importantly have developed clear objectives, goals and expectations of outsourcing activities.

In establishing its core activities, Safaricom has concentrated in its core functionalities that include their telecommunication infrastructure as indicated by all respondents on the activities that are candidates for outsourcing. The respondents strongly agreed that maintenance and operation is a strong candidate for outsourcing while others agreed equipment hiring, transmission were candidates for outsourcing with communication and network management as candidates for outsourcing. Hence the findings established based on majority of the respondents were in agreement that the main reasons for Safaricom Limited embracing business process outsourcing as a strategy includes freeing internal resources, concentrating on core areas i.e. providing voice, data and money transfers to its customers, reducing and controlling operating costs, gaining access to world-class capabilities, services and technology, high change in technology and reducing business and market risk.

This findings agree with the authors Power et.al (2004), who stated that outsourcing has been touted as the ideal way for organizations to reduce costs, focus on core business processes, improve services, enhance skills, reduce time to market and increase overall competitive advantage. Further inference is made by Insinga and Werle (2001), who argue that in order to do more with less, a company must focus its limited resources on those activities that are essential to its survival and must leverage activities that are peripheral. The result is a greater use of partnerships, collaborations, and simple buying to substitute for in-house capabilities. Safaricom can take advantage of being a current market leader in the industry in East and Central Africa and having been voted the Best Company 2008, 2009; take advantage of the many vendors would want to partner with them through outsourcing. This will enable them source the best quality with best value financially.

Thus as the study shows, safaricom has outsourced its functionalities which is a contributing factors to its leverage and position in the market place enhancing its efficiency in operation, a clear indicator that outsourcing can be used as a strategic tool of choice. The respondents concurred that some values and benefits Safaricom Limited is able to gain include increased subscribers 45 percent of respondents, improved operation

, revenue growth, network clarity, increased competitive advantage and cost reduction. Hence, by inference our findings support the views of Lacity (2004), who argues that Strategic outsourcing allows a company to focus its energies and resources in those areas that comprise its core competency. In addition the respondents view on critical analysis of the outsourcing activities above are in congruence with the finds of Mcivor (2004), this critical process of outsourcing involves a value chain approach to the outsourcing process. Once an organization is mapped to the value chain, the core and non-core activities of the organization are identified and defined. The next stage would entail analyzing the capabilities of the sourcing company in the core activities identified in relation to potential external sources. As part of this analysis the costs associated with either retaining the activity in house or outsourcing the activity should be measured. At the end o these stages the analysis may lead to either keeping the activity internally or outsourcing the activity.

The respondent agreed that outsourcing would create freed up internal resource and concentrate on core competence. This is to the company's advantage in trying to acquire competitive advantage against its competitor and it will help in freeing up internal resources. The respondents saw focus on strategy as a benefit that could be gained through outsourcing. Further release of internal resources can enable the company gain ground in service delivery and concentration on key business components.

Further, the researcher found out that business process outsourcing could also reduce or eliminate internal cultural differences as indicated by majority of the respondents who strongly agreed. This is important especially with regards internal customers who should not feel like they are being victimized through outsourcing or that their jobs are in danger of being outsourced. This can have a bad image on the company with staff deciding to resist any change or development created. If done right, through proper incorporation to company's business strategy, business process outsourcing can enhance a firm's value chain and they also strongly disagreed that outsourcing can enable a company obtain additional flexibility.

This should be a concern to the organization as it can lock itself in a long term contract that can reduce its ability to create new business or take advantage of new technology/ competitive advantage. In summary from the above results, there was an overall feeling that outsourcing could increase values and benefits for Safaricom Limited. This is a positive response considering the type of respondent targeted. These are the main company or departmental decision makers. It was obviously implied from the study that, as with every initiative which may affect outsourcing effectiveness and suitability, most respondents were in agreement with the various challenges associated with outsourcing given core activities within Safaricom and their effects were predominately rated as moderately high. This included poor selection of vendors, lack of proper cost benefit analysis, risk of outsourcing contract going wrong and cultural mismatch.

Under outsourcing agreements, equipment makers take over responsibility and staff for duties traditionally carried out by operators. That can include monitoring network performance; managing the flow of calls across the network; ensuring the honeycomb of mobile towers and base-stations is adequately maintained; and dealing with other suppliers. Safaricom Limited should reduce noncore infrastructure costs through cooperation with other players and exploit the potential of outsourcing opportunities as equipment vendors can typically handle the daily running of networks more cost-effectively than telecom operators because of economies of scale.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the whole of the study starting with conclusion with reference to the finding of the interview done. Recommendation done will not only be relevant to Safaricom or the telecommunication industry but all industries in general which have sensitive technologies that become outdated fast and with high initial capital expenditure.

5.2 Summary

The purpose of this study was to determine the effectiveness of strategic business outsourcing in Safaricom limited Kenya. Findings from the study shows that the respondents agreed that outsourcing could be used as a tool for business strategy to achieve competitive growth. It also showed that as much as there are many benefits and values that could be accrued, not all activities could be outsourced. Recommendations in this chapter will cover ways to diversify and neutralize these challenges.

After the 2007 post election violence, drought and the financial crisis that affected financial sector while affected economies with growth stagnating in most of the dominant sectors of the economy. Companies will have to develop ways to operate in environment with increasing cost and with a potential back drop of revenues and staggering cash flows. Outsourcing would be critical strategic tool to embrace such turbulence within the environment to stay ahead of competition. Organizations embarking on outsourcing initiative must understand that the success depends on a disciplined lifecycle methodology requiring committed and skilled resources from management. It depends also from the support of cross functional organization with a clear understanding of the organization strategy, goals and objectives.

5.3 Conclusion

Considering the research question of this study, various observations have been made that lead to the following conclusions. There is a general need for effective outsourcing as a business strategy for Safaricom Limited, other telecommunication companies in Kenya and the region. Outsourcing is a strategic tool and like all tools should be used properly to achieve the desired results. The respondents acknowledging that there was no alternative to outsourcing and with network management saying transmission and equipment hiring as the main activities likely to be outsourced.

Outsourcing decision and plans should be made at the Board level. This is the first line custodian in championing of creation of wealth for shareholders. Though done at the board, these plans should come from the top management. These are individuals mandated to do investment budget and plan for the company. The findings indicated that not all of the company's activities could be outsourced. The main areas were activities that require large capital and/ or operation expenditures. These will help maintain the company's competitive advantage as well as enabling the firm participates in its core objectives.

The findings shows the benefits that can be accrued through business process outsourcing benefits include:-focus on strategy is ranked the highest with the managers agreeing while freed up of internal resources, incorporating outsourcing into the firm's value chain to maintain competitive advantage and take advantage of technology coming second agreeing. The least considered was obtaining additional flexibility was least considered as a value gaining activity. These should be incorporated into the outsourcing strategy.

Areas that did not indicate positive response to outsourcing was mainly improved research and product development. This is to protect company's secrets and advancement so as to increase their competitive edge. The alternative for outsourcing in the outward purchase of the equipment which have a high initial cost. A cost benefit analysis should be prepared to show the difference between outsourcing and purchasing the equipments.

It also creates additional cost in terms of staff employment, procurement and management of the facilities acquired. Safaricom Limited can also gain values through outsourcing. The only resistance was that the company will obtain additional flexibility through outsourcing. Staff resisted outsourcing as a strategy with a claim it could cause loss in employment for others. Outsourcing some departments like customer service, retail and marketing will affect acquisition and retention of customers as the firm does not have direct relation with their clients.

Main values that could be gained through outsourcing include:-Freed up internal resource and concentrate on core competence, Take advantage of technological advances, Focus on strategy, Reduce or eliminate internal cultural differences, Integration into the firm's value chain to maintain competitive advantages and obtain additional flexibility. Outsourcing of product development, customer service and marketing disconnects Safaricom Limited from their main customers. The outsourced firm will not intently provide required resources for management purpose. In product development, it is not guaranteed that secrets and that the same product will be sold to competitors

5.4 Recommendations

Based on the study findings the following recommendations are suggested for consideration. A business process is termed a core process if it gives a company competitive advantage. If a process is strategic, a business will not want to become dependent of share it with a vendor without proper structures vendor who might supply to the clients competitor. Outsourcing process should be closely monitored and evaluated to ensure that the vendor provides services as per the contract and those objectives for outsourcing are achieved.

It is therefore recommended that Safaricom performs Strategic analysis prior to selection of the suppliers or vendor. These are strategic partners who will assist the company in provision of services to its clients. This study identified a number of challenges that Safaricom faces in their attempt to outsource non-core activities. The study however, did not seek to identify the causes and effects of these challenges nor did it seek to find

solutions to such challenges. The issue of challenges in outsourcing is becoming a matter of concern and of great importance as competition in the telecom sector heightens. The researcher therefore recommends further studies on the cause and effects of the challenges that Safaricom Kenya face in their application of outsourcing as a strategic choice and possible solutions to these challenges that would help the industry players to be more efficient and effective in their operations.

5.5 Limitations of the study

When carrying out the research project, I found a number of different constraints in the research process at the organizations which are compared to secondary research, primary data may be very expensive in preparing and carrying out the research hence it required properly planning for primary data collection required the development and execution of a research plan. Another limitation the researcher faced is that some respondents were not willing to disclose information that could prove quite valuable.

Other limitation is that it is time consuming and by the time the research is complete a lot of time lost and to some extent the researcher avoids their primary duties for the duration of the research. Other limitations incurred was that to carry out the research project, a lot of time was required for planning, finding instruments to collect data, analyzing the data, and all the other processes necessary to make and implement my project. Another concern I had when carrying out this project was narrowing the research to specific respondents mainly been managers who are always busy so that it was not too general, and most important, that it was possible to obtain results out of it that could help other researchers. I found this constraint especially challenging due to the complexity of the subject.

5.6 Implication on policy theory and practice

An advantage of business process outsourcing is the way in which it helps to increase a company's flexibility. However, several sources have different ways in which they perceive organizational flexibility. Therefore business process outsourcing enhances the flexibility of an organization in different ways. Most services provided by business

process outsourcing vendors are offered on a fee-for-service basis. This can help a company becoming more flexible by transforming fixed into variable costs. A variable cost structure helps a company responding to changes in required capacity and does not require a company to invest in assets, thereby making the company more flexible. Outsourcing may provide a firm with increased flexibility in its resource management and may reduce response times to major environmental changes. Another way in which business process outsourcing contributes to a company's competitive advantage is that a company is able to focus on its core competencies, without being burdened by the demands of bureaucratic restraints. Key employees are herewith released from performing non-core or administrative processes and can invest more time and energy in building the firm's core businesses. The key lies in knowing which of the main value drivers to focus on – customer care, product leadership, or operational excellence. Focusing more on one of these drivers may help a company create a competitive edge.

Another implication is that business process outsourcing increases the organizations speed of business processes. Supply chain management with the effective use of supply chain partners and business process outsourcing increases the speed of several business processes, such as the throughput in the case of a manufacturing company. Flexibility is seen as a stage in the organizational life cycle, which a company can maintain growth goals while avoiding standard business bottlenecks. Business process outsourcing therefore allows firms to retain their entrepreneurial speed and agility, which they would otherwise sacrifice in order to become efficient as they expanded. It avoids a premature internal transition from its informal entrepreneurial phase to a more bureaucratic mode of operation.

A company may be able to grow at a faster pace as it will be less constrained by large capital expenditures for people or equipment that may take years to amortize, may become outdated or turn out to be a poor match for the company over time. Although the above-mentioned arguments Management needs to be careful with the implementation of it as there are issues, which work against these advantages. Among problems, which arise in practice are: A failure to meet service levels, unclear contractual issues, changing

requirements and unforeseen charges, and a dependence on the vendors which reduces flexibility. Consequently, these challenges need to be considered before a company decides to engage in business process outsourcing. A further issue is that in many cases, there is little that differentiates the business process outsourcing providers other than size. They often provide similar services, have similar geographic footprints, leverage similar technology stacks, and have similar Quality Improvement approaches. On the other hand, risk is the major drawback with Business Process Outsourcing. Outsourcing of an Information System, for example, can cause security risks both from a communication and from a privacy perspective. For example, security of North American or European company data is more difficult to maintain when accessed or controlled in the Sub-Continent.

From a knowledge perspective, a changing attitude in employees, underestimation of running costs and the major risk of losing independence, outsourcing leads to a different relationship between an organization and its contractor. Risks and threats of outsourcing must therefore be managed, to achieve any benefits. In order to manage outsourcing in a structured way, maximizing positive outcome, minimizing risks and avoiding any threats, a business continuity management model is set up. BCM consists of a set of steps, to successfully identify, manage and control the business processes that are, or can be outsourced. Business process is the skeleton of a certain business activity which involves the description of different tasks and possible outcomes that are associated with a specific business activity. Business process is essential in crafting the business goals of a certain corporate organization, which is clearly defined in the organization's business strategy.

The business process of a firm must involve the management processes which are followed to run the operation of the business and comply with all existing yet relevant requirements. The operational processes are followed in delivering the business value to clients and are considered an integral part of a corporate organization's core business. The supporting processes follows which is done to support the core based processes that includes accounting, information technology (IT) support, and recruitment processes.

Being the skeleton of your organization's business activity, you must give utmost importance to your business process as a whole. This is extremely important since the success or failure to achieve the goals of your business will largely depend on the process that you have chosen, together with your business strategies and plans. Thus, without an effective business process; your business is as good as dead. Realizing the importance of a business process in achieving their business objectives, most companies opted to outsource some or all of their business process (most specifically the non-core processes) to third-party organizations.

The main motive of outsourcing a business process is to allow a business to invest most of its time, financial and human resources into core activities and focus on building effective strategies that will fuel the growth of the company. Since the global marketplace is fast changing and becoming highly competitive, your business must concentrate on improving productivity and at the same time trim down unnecessary costs. Surviving in a highly-competitive global marketplace is not as easy as you think. You need an option that will work to your advantage and that option is outsourcing. Now since the business process of a company; especially the non-core one needs to be given equal importance and attention to achieve an efficient business operation. Outsourcing these business processes will not be a waste of time and financial resources, but rather a strategy to be followed. on core business processes are being outsourced because the tasks involved in these processes consumes time, essential resources and energy. Thus, outsourcing these non-core business processes will help your business achieve a cost-efficient system.

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APPENDICES

APPENDIX I

INTERVIEW GUIDE

I am a postgraduate student undertaking a master of business administration degree at the University of Nairobi. I am currently carrying out a study on the effectiveness of strategic business outsourcing. My approach to this study will ensure minimum or no disruption to your schedule of activity. I kindly request you to provide the required information by responding to the questions on the questionnaires. The information required is purely for academic purposes and will be treated in the strict test of confidentiality. A copy of the research project will be made available to you upon request. I will appreciate your cooperation in this academic exercise.

Thanking you in advance.

Kindly fill all the questions either by ticking in the boxes or writing in the spaces provided.

PART I: GENERAL INFORMATION

a. Department

Marketing	<input type="checkbox"/>	Finance	<input type="checkbox"/>	Retail	<input type="checkbox"/>
Call Centre	<input type="checkbox"/>	Human Resource	<input type="checkbox"/>	Engineering	<input type="checkbox"/>
ICT	<input type="checkbox"/>	Legal	<input type="checkbox"/>	Research	<input type="checkbox"/>

b. What is your rank in the organization?

Senior level Management	<input type="checkbox"/>	Middle level management	<input type="checkbox"/>
Supervisory Level	<input type="checkbox"/>	General Staff	<input type="checkbox"/>

c. Your gender: Female Male

d. Age: 20-25 years 26-30 years
31-35 years 36 years and over

e. How long have worked for this organization?

1) Less than 2 years

- 2) 3-5 years
- 3) 6-8 years
- 4) 9 years and over

PART II: OUTSOURCING AS A STRATEGIC CHOICE

How does the company outsource these activities effectively?

- a. Network Management.....
.....
- b. Customer Service Marketing.....
.....
- c. Product Development.
.....
- d. Communication.....
.....
- e. Equipment hiring.....
.....
- f. Transmission.....
.....
- g. Maintenance and Operation.
.....

What's your opinion on the following statements regarding the company's view on outsourcing? Please explain.

- a. All activities and processes are possible candidates for outsourcing.....
.....
- b. All activities and processes including those that form part of the company's competitive advantage but excluding core competencies are possible candidates.
.....
.....

- c. Outsourcing is a fully integrated part of our business planning process.
.....
.....
- d. Outsourcing decisions are in the main conducted at group board level to consider its overall effect on the business.
.....
.....
- e. Are there any other options available than outsourcing?
.....
.....
.....
- f. Is outsourcing really a strategic tool?.....
.....

PART III: VALUE OF OUTSOURCING

According to your personal opinion, how does the company add value to its operations when business process outsourcing is done in terms of?

- a. Cost reduction.....
.....
- b. Network clarity.....
.....
- c. Revenue growth.....
.....
- d. Improved Operation.....
.....
- e. Improved Research and Product Development

F.Increase in Subscribers.....
.....

PART 1V: BENEFITS OF OUTSOURCING

What are the benefits that will be achieved when business process outsourcing is implemented in terms of?

- a. Freeing up internal resource and concentrate on core competence?.....
.....
- b. Taking advantage of technological advances?.....
.....
- c. Focus on strategy?.....
.....
- d. Outsourced activities being integrated into the firm's value?.....
.....
- e. Obtain additional flexibility?.....
.....

THANK YOU FOR TAKING YOUR TIME TO COMPLETE THE INTERVIEW GUIDE.

University Of Nairobi,

School of Business

MBA program

P.o. box 30197

Nairobi

To whom it may concern

Dear Madam/ Sir

RE: INTRODUCTION LETTER

The bearer of this letter Jacintah Wambui Kiiru registration D61/72840/2009 is a master of Business Administration (MBA) student of the University of Nairobi.

She is required to submit as part of her coursework assessment a research project on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist her by allowing her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be available to the interviewed organizations on request.