STRATEGIC OUTSOURCING AT AIRTEL KENYA

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DECLARATION

This research project is my own original work and has not been submitted to any other university for examination purposes.

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This proposal has been submitted for presentation with my approval as the University supervisor.

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I acknowledge God's steady help in helping me complete this project. I also acknowledge the help of Jane Murungi in providing me with access to journals that aided my research.

DEDICATION

This work is dedicated to my beloved husband, Charles Kariuki, whose loving and persistent pressure led me to start and finish this project. I love you and thank God for you.

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ABSTRACT

Outsourcing is the practice of hiring outside professional services to meet in-house needs of an organization. Outsourcing by a firm may be either tactical or strategic. Outsourcing is considered tactical when it is implemented in order to solve specific problems being experienced by the firm. Strategic outsourcing on the other hand is concerned with building long term value for the firm through long term relationships. The firm seeking to outsource works with best in class service providers whom it integrates into its operations. The outsourcing firm considers the vendors offering services as business partners and the emphasis is on mutual benefit. The purpose of this project is to establish the factors that influenced Airtel Kenya's decision to outsource some of its functions to external vendors, to establish what process was followed and to also establish the effects of strategic outsourcing on the business of Airtel Kenya. The research design was that of a case study and senior members of the Airtel Kenya, Executive Committee were interviewed. The decision to outsource at Airtel Kenya was largely driven by the parent company Bharti Airtel of India which had extensive outsourcing experience in India. However, forces in the macro environment and the competitive environment provided justification for the implementation of the decision. Because of the top down nature of the decision, formal steps necessary to evaluate whether outsourcing was needed by the Company were omitted. The local teams were also not given adequate time to prepare for the transition to the outsource partners. As a result the implementation faced a number of challenges which could have been avoided by ownership of the process by local teams and providing adequate time to plan for the outsourcing. The study found that the Company nonetheless, experienced a raft of benefits such as the ability to focus on the core business of the Company and become more customer-centric; the Company gained access to superior services of the vendors; gained efficiency; helped the Company to manage the vendors' ability to constrain the Company's profitability; enabled the Company to manage technological risks; attain cost control; attain standardization across many related operations and to a limited extent save costs. The study findings recommend that the success of strategic outsourcing is dependent on governance structures in place to manage the vendors output. Water tight contracts are needed to manage the roles and responsibilities of the Company and the vendor and provide for consequence management. Adequate time also needs to be given to the senior management of the Company for them to transition the services to the outsource vendor as well as manage the impact of the transition on staff. The study was limited by the unavailability of financial and transactional cost information by reason of confidentiality. As a result the study does not establish the actual cost benefit of outsourcing that the Company attained or hoped to attain or how outsourcing contributed to the financial performance of the Company. The study suggests that further studies should be carried out to determine how widespread is the practice of outsourcing in Kenya and what is the effect of outsourcing on the Kenyan economy? Such further studies would help the government develop appropriate policies on outsourcing.

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CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Outsourcing is the practice of hiring outside professional services to meet in-house needs of an organization (Gupta and Gupta, 1992). Outsourcing has been a business practice since the Industrial Revolution and has helped thousands of companies achieve profitability. Today in the United States of America and Western Europe, almost every company outsources some part of their business (Brown and Wilson, 2005). According to Brown and Wilson (2005) Companies in the United States and in Western Europe rarely build manufacturing plants in their country. Instead China, Eastern Europe, India, the Philippines, South Korea and Taiwan are the locations of choice for this purpose because labour costs in these destinations are a fraction of the costs in the West.

Brown and Wilson (2005) further state that powerful trends in the global business environment have made outsourcing a growing phenomenon. Some of these global trends include: the shift from domestic to global economy; the shift from manpower to techno-power; the shift from company –led to consumer driven market forces and the shift from industrial economies to knowledge based economies. The global nature of business encourages outsourcing because global firms are pursuing the lowest cost source on a global scale making firms with a global footprint more competitive than their locally limited counterpart as they can source labour from the cheapest sources in the world. In pursuit of efficiency businesses are increasingly relying on technology as opposed to manpower. Firms that are heavily dependent on technology may decide to outsource in order to mitigate the risk of technology obsolescence. For most businesses, consumers are becoming more demanding of superior services. Firms therefore will tend to outsource aspects of their business to experts who are able to customize products more efficiently than the firm can achieve. Lastly in knowledge economies the outsourcing of business processes is crucial as it allows firms to focus on their core competence; allows business to achieve greater efficiency without having to invest in people and technology (Brown and Wilson).

1.1.1 Strategic Outsourcing

Outsourcing by a firm may be either tactical or strategic (Brown and Wilson, 2005). Outsourcing is considered tactical when it is implemented in order to solve specific problems being experienced by the firm. For example a firm that lacks financial resources to make the requisite capital investment or lacking adequate managerial competence may outsource to a firm that has already made the investment or has the requisite managerial competence. Other situations under which a firm may engage in tactical outsourcing are where the firm wishes to generate immediate cost savings; realize a cash infusion from the sale of assets or find relief from the burden of staffing. The focus of tactical outsourcing is the contract and the relationship between the firm and the vendor of the services is one of purchaser and seller.

Strategic outsourcing on the other hand is concerned with building long term value for the firm through long term relationships with vendors. The firm seeking to outsource works with best in class service providers whom it integrates into its operations. The outsourcing firm considers the vendors offering services as business partners and the emphasis is on mutual benefit. Strategic outsourcing is also strategic business response to the external environment and to competitive forces within industry. According to Taylor and McAdam (2004) firms learn from the environment and adopt innovations to respond to environmental change. If the external environment is perceived to be highly dynamic and complex, then the level of outsourcing activities is likely to be high. This is because firms in such an environment will chose to transfer the risks inherent in that industry be they technology or human resources, to the outsourcing supplier (Gilley, McGee, and Rasheed 2004). Lastly firms are driven to strategic outsourcing by the profit motive and survival instinct (Brown and Wilson, 2005).

1.1.2 Telecommunications Sector in Kenya

The telecommunications sector in Kenya was liberalized in 1998, when the incumbent government owned monopoly, Telkom Kenya, was split into various entities to foster competition in the sector. By the year 2010, the mobile telephony sector had four players offering mobile telephony services, namely Safaricom, Airtel Kenya, Essar Telecom (also known as Yu Mobile) and Telkom Kenya (also known as Orange Mobile).

In the period 2010 -2011 companies in this sector were experiencing escalating business costs. On a global level fuel prices were rising. At a local level the Kenyan shilling was losing to major world currencies. Firms in the telecommunications sector are heavily dependent on fuel to run their Base Transmission Stations. The telecoms sector is also very technology dependent. Because of high level of technological innovations at the global level, new versions of telecommunication equipment were developed on a frequent basis. Vendors would then stop supporting old versions of the equipment and firms therefore needed to invest in equipment constantly.

In the industry, Safaricom had the largest share of market revenues and subscriber share of 81%. Only Safaricom was profitable, having announced billions of profit ever year in previous periods and continuing to be profitable. The other three competitors had reported losses in previous years and continued to do so. Airtel's subscriber market share stood at 9%, while that of Essar and Telkom Kenya stood at 7% and 3% respectively. Indirect competition is also offered to mobile operators by firms like Wananchi, MTN, Access Kenya, Jamii and Kenya Data Networks who provide dark fiber to connect homes and corporate, but in addition also offer Voice Over the Internet Protocol (VOIP) calls and data. The telecoms sector in Kenya is highly regulated. To participate in the sector a firm needs to make significant investments with license fees being in millions of dollars. The regulator also sets wholesale prices (also known as interconnection rates) and regulates market promotions by requiring its licensees to obtain written approval prior to launch of products. Because of the biting economic conditions prevailing in Kenya in 2010 the subscribers of mobile telephony were showing price sensitivity and were allergic to price increases. As a result subscribers were demonstrating lack of loyalty to service providers by maintaining more than one SIM card and using the services of the cheapest provider depending on the destination of the call. At the same time the industry faced high levels of obsolescence of equipment due to over reliance on technology which was fast evolving. The suppliers of technical equipment in the sector were few and powerful. A mobile service provider would typically be dependent on the supplier who had installed its telecommunication network as the equipment of other vendors was not compatible.

Forces in the macro environment, as well as competitive forces in the telecommunications industry, were constraining its ability to grow and become profitable. As such Airtel needed to rethink its business approach. One of the strategies that Airtel took up in order to improve its performance and remain competitive was outsourcing of key functions to vendors.

1.1.3 Airtel Kenya

Airtel Kenya is a licensed mobile operator in Kenya having been licensed by the Communications Commission of Kenya to offer mobile telephony services in 2000. From its inception the Company had made no profits and was losing market share on a continual basis. In the period 2010 to 2013 Airtel pursued an outsourcing strategy and as a result outsourced functions such as IT, Networks, Finance and Customer Care in addition to outsourcing logistical services.

Airtel Kenya's decision to outsource was consistent with the Strategy of its parent company Bharti Airtel Limited of India (Martinez-Jerez and Narayan, 2006). By March 2004 Bharti Airtel had signed a deal with IBM for a ten year partnership arrangement for on-demand IT services. In July 2004 Bharti Airtel concluded deals with telecom vendors, Ericsson, Nokia and Siemens for the transfer of the build-up and management of its telecommunications network (Martinez-Jerez and Narayan, 2006). The arrangements Bharti had entered into with these IT and Network vendors were considered to be novel because an Indian firm was outsourcing to the West (Buckman, 2005). Bharti Airtel upon acquisition of its Africa operations implemented the outsourcing model in all its operations including Airtel Kenya.

1.2 Research Problem

Strategic outsourcing is one of the strategies that a firm can adopt in order to improve the ability of the firm to survive and compete in its environment in the long term. Through strategic outsourcing the firm can transfer the risk inherent in the macro environment such as dynamic costs and high technological obsolescence to the outsource vendor. Outsourcing can also help the firm to build defenses against competitive forces in the industry. Lastly strategic outsourcing can bring the firm a host of strategic benefits such as the ability to focus on its core business, to become more customer-centric, access the superior resources of the outsource vendor and also save costs by taking advantage of the scale of the vendor. However, for a firm to fully benefit from strategic outsourcing, the firm must implement strategic outsourcing in the right manner. This involves the firm carrying out a formal evaluation to determine whether it is best for services to be rendered in-house or to be provided by an external vendor. Secondly, there must be a high level of stakeholder involvement so that there is buy-in by the staff of the firm that is outsourcing and buy-in by the outsource vendor. Lastly, because outsourcing may result in job loses the firm must handle the restructuring exercise in a delicate manner, ensure proper communication to all who are affected and minimize the possibility of law suits.

Airtel Kenya had been unprofitable year after year from its inception in the year 2000. By 2010 the macro environment in which Airtel Kenya was operating was highly dynamic and was imposing unpredictable costs such as foreign exchange losses and escalating fuel costs. In addition the Company being in the technology sector was facing high levels of technology obsolescence. All of these factors were constraining the Company's ability to be profitable. At the same time competitive forces such as strong suppliers, price sensitive and disloyal consumers, high levels of regulation and a strong and seemingly impenetrable competitor in Safaricom, the environment in which Airtel was operating was constraining its ability to grow. Unless Airtel Kenya changed its business approach it would remain unprofitable and continue to lose market share.

There have been a number of valuable studies on outsourcing in Kenya, (Gakii, 2010; Oyugi, 2010; Malachy, 2010; Gulamhusein, 2011) all of which present evidence that strategic outsourcing has taken root in Kenya. These studies (Gakii, 2010) and (Oyugi, 2010) also indicate that strategic outsourcing if properly implemented can contribute positively to the corporate performance of the firm. However, none of these studies indicate the changes in approach to strategic outsourcing that have taken place over the last few years.

This study aims to investigate whether by adopting outsourcing as a business strategy, Airtel Kenya has enhanced its ability to survive and grow in the telecommunications sector in Kenya. How has the adoption of the business practice of outsourcing, by Airtel Kenya, helped the firm enhance its ability to survive and grow in the telecommunications sector in Kenya?

1.3 Research Objectives

The objectives of this study will be:-

i. To establish the factors that influenced Airtel Kenya's decision to engage in strategic outsourcing.

ii. To establish how strategic outsourcing has been implemented at Airtel Kenya.

iii. To establish the effect that strategic outsourcing has had on the business of Airtel Kenya.

1.4 Value of the Study

The learnings from this study will benefit the business practice of outsourcing as other firms will learn from the experience of Airtel Kenya, what services may be outsourced and what services are best left in house as well as best practices in the implementation of outsourcing.

The learning gained from Airtel's experience in outsourcing will inform the Government of the need to develop policy to promote Kenya as an outsourcing destination as well as the need to regulate offshore outsourcing. Outsourcing practices of businesses can have significant impact on the economy of the country depending on the direction of outsourcing Koong, Liu and Wang (2007).

Lastly this study adds to the existing body of research on the subject of outsourcing. The study provides the latest thinking and approaches on the subject of outsourcing.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter looks into strategic outsourcing as a growing phenomenon, provides a definition of strategic outsourcing, looks into the theoretical foundations of outsourcing, the different types of outsourcing as well as the strategic reasons why firms implement outsourcing.

2.2 Theoretical Foundations

Outsourcing is the practice of hiring outside professional services to meet in-house needs of an organization (Gupta and Gupta, 1992). Grover, Cheon and Teng (1996) define outsourcing as the significant use of resources either technological and or human resources that are external to the organizational hierarchy of the firm. It involves the turning over part or all of an organization’s function to be managed by another entity.

Outsourcing has been around since the Industrial Revolution and has helped thousands of companies achieve profitability. In the United States of America and Western Europe, almost every company outsources some part of their business (Brown and Wilson, 2005). According to Brown and Wilson (2005) Companies in the United States and in Western Europe rarely build manufacturing plants in their country. Instead China, Eastern Europe, India, the Philippines, South Korea and Taiwan are the locations of choice for this purpose because labour costs in these destinations are a fraction of the costs in the West.

Brown and Wilson (2005) further state that powerful trends in the global business environment have made outsourcing a growing phenomenon. Some of these global trends include: the shift from domestic to global economy; the shift from manpower to techno-power; the shift from company –led to consumer driven market forces and the shift from industrial economies to knowledge based economies.

Outsourcing by a firm may be either tactical or strategic. Outsourcing is considered tactical when it is implemented in order to solve specific problems being experienced by the firm. For example a firm that lacks financial resources to make the requisite capital investment or lacking adequate managerial competence may outsource to a firm that has already made the investment or has the requisite managerial competence. Other situations under which a firm may engage in tactical outsourcing are where the firm wishes to generate immediate cost savings; realize a cash infusion from the sale of assets or find relief from the burden of staffing (Brown and Wilson). The focus of tactical outsourcing is the contract and the relationship between the firm and the vendor of the services is one of purchaser and seller.

Strategic outsourcing on the other hand is concerned with building long term value for the firm through long term relationships (Brown and Wilson). The firm seeking to outsource, works with best in class service providers whom it integrates into its operations. The outsourcing firm considers the vendors offering services as business partners and the emphasis is on mutual benefit.

There are several factors that influence or lead a firm to the decision to outsource the provision of services that the firm needs to make its output. The Transaction Cost Theory and the Resource Dependency Theory capture the essence of the factors that influence a firm to take the decision to outsource.

2.2.1 Transaction Cost Theory

This theory states that organizations are economic actors using the most efficient mechanism for transactions (Williamson, 1981). This theory posits that there are costs in using a market. These costs include operational costs such as search costs and inventory holding costs as well as the costs of writing and enforcing a contract. By making their own inputs the firm gains economies of scale and avoids transaction costs. The increased size of the firm will however require increased internal co-ordination (Grover et al 1996). If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale (Grover et al 1996). It would however take advantage of the economies of scale and scope of the vendor while at the same time reducing internal co-ordination costs. However the firm that outsources will increase its external co-ordination costs. External coordination costs will increase or decrease depending on the level of asset specificity.

High asset specificity arises where the firm's products and services are customized and not easily transferable to alternative vendors (Williamson, 1985). Where the firm's products and services are very unique, the vendor may not be able to develop sufficient economies of scale and costs would be very high. In such a situation it may be more prudent to develop the competencies in house. In contrast more standardized products and services could reflect lower external co-ordination costs and the vendor may achieve economies of scale and would therefore be a more viable option for outsourcing. The transaction cost approach therefore offers an analytical frame work that can be used by a firm in comparing outsourcing services and in-house services (Lacity and Hirschheim, 1993) as well as in predicting outsourcing success (Wang, 2002) in terms of economic benefits. Using Adam Smith's division of labour theory, De Looff (1995) proposed that only when the outsourcing supplier performs certain activities on a large scale can the efficiency of outsourcing be reached. If outsourcing cannot be performed on a large scale, the financial benefits of outsourcing, such as reduction of operational costs and improvement of measurability of costs are hardly achieved. The production scale of the outsourcing partner as well as the scale of the outsourcing market may be important variables in determining the adoption of outsourcing (Lacity and Hirschheim, 1993).

2.2.2 Resource Dependency Theory

Barney (1991), states that this theory, views a firm as a collection of productive resources, physical, human, and organizational capital. To fully exploit a firm's existing stock of resources and capabilities in order to develop competitive advantage, the external acquisition of complementary resources and capabilities might be necessary. According to Grant (1991 p 120), this external acquisition is known as "filling gaps" and should be done only after a thorough evaluation of existing resources and deficiencies. Aldrich (1976) contributes by stating that the Resource Dependency Theory posits that a firm will tend to outsource when it depends on critical resources such as labour, capital, information or market that are external to the firm. A firm will exploit internal and external resources as necessary in order to develop a competitive advantage. Grover et al (1996) summarizes it that the resource dependency theory points to the acquisition of vendor resources to supplement in house competencies rather than total outsourcing.

2.3 Types of Outsourcing

Currie and Willcocks (1998) distinguish three types of outsourcing for resources (human, physical, technology, etc) by a firm. These are Total Outsourcing, Multiple Supplier Outsourcing and Joint Venture or Strategic Alliance outsourcing.

Total Outsourcing involves developing a partnership with a single supplier of a service that is perceived by the firm to be a support function. The supplier takes up the total responsibility of providing that service to the firm. This type of outsourcing enables the firm to focus its resources on what it considers to be its core business and avoid distractions. The Supplier of the total outsourcing service is of necessity an expert in providing the services required by the firm and able to provide the services on a scale that is more efficient than the firm.

Multiple Supplier Outsourcing involves using more than one supplier to provide disparate services required by the firm. The services are outsourced to experts who are able to provide the service on a more efficient scale than the firm. The firm outsources because it requires the superior technology or ability of the outsourcing vendors. This form of outsourcing aims at fostering innovation and creates competition between suppliers. Contracts are usually short term, and the firm co-ordinates a portfolio of services from various suppliers with the aim of retaining strategic control.

Joint Venture Outsourcing involves a very close relationship between the firm and the outsourcing vendor. The firm and the outsourcing vendor may enter into a formal or informal partnership. The main focus is concerned with development of new knowledge for the firm, and there is more emphasis on shared risks and rewards. In some situations the firm will foster the creation of a vendor company to which it will outsource work, but still have more control than it would in a multiple supplier or total outsourcing arrangement. Because this outsourcing model involves some form of vertical integration it may be used by a firm wanting to control competitive forces posed by suppliers in the industry as established by Porter (1979).

Outsourcing may also be classified as either off shore or on shore or near shore (Gulamhusein 2011). Outsourcing is considered offshore outsourcing where the outsourcing vendor renders the services from another part of the world. Outsourcing is considered onshore outsourcing where the outsourcing vendor is situated in the same city or country as the client. Near shore outsourcing takes place where the outsourcing vendor is situated in a nearby country.

2.4 Outsourcing as a Strategic Choice

Strategic outsourcing is concerned with creating long term value for the business through long term mutually beneficial partnerships. The firm can create long term value by adopting outsourcing, to help it better manage the forces in the macro environment; to help it manage the forces in the competitive environment; to help the firm become more customer centric and to help the firm improve its overall performance.

Pearce and Robinson (2003) classify the macro environmental factors that can affect the firm's ability to survive and be profitable as being political, economic, social and technological. For the firm to remain profitable and competitive it must monitor these factors in the macro environment and adapt accordingly. Government policy may encourage or discourage outsourcing. The government may use preferential policies to shore up its country's attractiveness as an outsourcing destination. According to Qu and Brocklehurst (2003), from a transaction cost perspective, incentives provided by the destination government can reduce the transaction costs and attract organizations to outsource in the destination. Similarly governmental intervention in the form of taxation can control the volume of offshore outsourcing. Macroeconomic conditions in the outsourcing destination may also encourage or discourage outsourcing. The global nature of business means that firms are pursing the lowest cost source (for labour and other resources) on a global scale making firms with a global foot print more competitive than their locally limited counterparts.

An organization's inclination to adopt outsourcing may also be influenced by the social norms. The impact of social norms may be particularly significant in the context of offshore IT outsourcing. According to Doh (2005), when a large number of jobs have been outsourced abroad, calls for corporate social responsibility become a social norm for the firms outsourcing abroad. Corporate social responsibility requires that an organization contribute to the social needs of its home country as well as protect the natural environment in the outsourcing destination (Doh, 2005). Outsourcing may also be triggered by dynamic technological innovations. Martinez- Jerez et al (2006) in their case study of Bharti Airtel Ltd of India, on behalf of Harvard Business School found that where the technological risk of obsolescence is high arising from dynamic technological improvements and specifications changes a firm will chose to outsource in order to transfer the risk of such obsolescence to the vendor.

In regard to the competitive environment, Porter (1980) posits that the nature and degree of competition in an industry hinges on five forces namely the threat of entrants, the bargaining power of customers, the bargaining power of suppliers the threat of substitute products, the jockeying among current contenders. Porter (1980) concluded that where these competitive forces are collectively strong then long run profitability is unlikely. Where the competitive forces are collectively weak, then there is an opportunity for superior performance. The degree of competition in firm's industry can be influential to the decision on adopting outsourcing. Douma and Shreuder (1992) are of the view that from a micro-economics perspective only the organizations producing the products in the most efficient way can survive competition in a free market economy. De Loof (1995) agrees that the degree of competition within the firm's industry may have a positive impact on the adoption of outsourcing since it can enhance an organization's efficiency of operation in different ways.

Outsourcing is therefore a business response to the external environment and to competitive forces within industry. According to Taylor and McAdam (2004) firms learn from the environment and adopt innovations to respond to environmental change. If the external environment is perceived to be highly dynamic as well as complex, then the level of outsourcing activities is likely to be high. This is because firms in such an environment will chose to transfer the risks inherent in that industry be they technology or human resources, to the outsourcing supplier (Gilley, McGee, and Rasheed, 2004).

Outsourcing can also help a firm to be more customer-centric. According to Porter (1980), understanding and satisfying customer needs is crucial for an organization to sustain a competitive advantage in the market. Zhang and Cao (2002) state that the need for flexibility to meet fast changing customer needs forces an organization to restructure its goal, organization structure and business process and use outsourcing to meet customer needs so as to gain a competitive position in the value chain. Porter (1980) lists three best strategies that a firm can undertake. They are cost leadership, differentiation, and market segmentation (or focus). Cost leadership is an integrated set of actions designed to produce products at the lowest cost relative to the competitors while maintaining features that are acceptable to customers. Differentiation involves distinguishing products or services offered by a firm by creating something that the industry perceives as unique. Market segmentation or focus strategy involves focusing on serving a narrow market segment or product category.

Using the differentiation strategy and cost leadership strategy dichotomy by Porter (1980), Gilley and Rasheed (2000) established that outsourcing peripheral activities may better benefit organizations pursuing cost leadership strategy and outsourcing core activities may better benefit organizations pursuing differentiation strategy, since organizations pursing cost leadership strategy need most to reduce the peripheral costs , whereas organizations pursuing the differentiation strategy need most the skills for improving the quality of core activities. Barthelemy and Geyer (2004) found that cost reduction was the greatest motivation for firms to outsource.

Lastly firms outsource because of the strategic benefits that outsourcing brings to the business. Loh et al (1992) enumerate these benefits as firstly the firm may gain strategic benefit by focusing on its core business by outsourcing none core activities and secondly the firm may gain economic benefits by utilizing the economies of scale in human and technological resources of the vendor. Apte (1990) gives a third benefit namely that the firm may benefit from access to superior technology and be able to avoid the risks of technological obsolescence. Grover et al (1996) concludes that these benefits need to be weighed against the increase in transactional and external co-ordination costs, decreased flexibility and the competing and sometimes conflicting objectives of the firm and the vendor.

How strategic outsourcing is implemented by a firm can either deliver the strategic objective of outsourcing or not. Gakii (2010) in the study of outsourcing at East Africa Breweries found that the implementation was plagued by fear of job loss. At British American Tobacco Limited, Oyugi (2010) found that outsourcing had a positive effect on the corporate performance of the company but that the performance would have been enhanced had the company engaged all stakeholders in the exercise.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the research design that was used, the method of data collection as well as the method of data analysis. This study aims to investigate how factors in the macro and competitive environment have influenced Airtel Kenya to engage in strategic outsourcing, how strategic outsourcing was implemented and what effect strategic outsourcing has had on the business performance of Airtel Kenya.

3.2 Research Design

The selected research design is a case study. A case study is a method that allows an in-depth investigation of an individual, institution or phenomenon. A case study was considered appropriate because it allows the researcher to focus on one unit namely Airtel Kenya and to carry out an in depth study on the effects of strategic outsourcing on Airtel Kenya.

The interviewees were heads of the functions that were outsourced in part or in full as well as those who have general oversight over the Company. The interviewees are senior executives of the organization who are responsible for the development and implementation of the Company's strategy and are knowledgeable of the factors that influenced strategic outsourcing at Airtel Kenya as well as the effects of the decision to outsource certain functions within the Company.

3.3 Data Collection

The research involved the collection of primary data by the researcher personally interviewing a total of six members of the Executive Committee of Airtel Kenya namely the Managing Director, the IT Director, The Network Director, The Customer Care Director, The Human Resources Director and Supply Chain Director. These members of the Executive Committee team were instrumental in implementing the outsourcing strategy at Airtel Kenya.

The researcher relied on the interview guide attached as an appendix to guide the interviews. The interview guide contained open ended questions. Section A of the guide focused on the background of the interviewee; Section B focused on establishing the factors that influenced Airtel Kenya's decision to outsource; Section C sought to establish the potency of the competitive forces impacting on Airtel Kenya; Section D sought to establish how the decision to outsource was implemented and lastly Section E focused on establishing the effects of the outsourcing outcomes on the business of Airtel Kenya.

3.4 Data Analysis

The researcher used content analysis to analyze the responses of the interviewees. Content analysis is a research technique for the objective, systematic and qualitative description of the manifest and latent content of a communication (Cooper & Schindler 2003). The main aim of the research is to establish whether Airtel Kenya by its implementation of strategic outsourcing achieved the objectives.

In assessing the effects of the decision by Airtel to outsource, the researcher determined the extent to which the factors that influenced the decision to outsource have been achieved. In this regard the researcher will assess whether there has been, increased focus on the core activities on the business, increased cost savings or cost control, increased access to resources that the company did not have access to prior to the decision to outsource, greater control of suppliers, access to superior technology and mitigation of the risk of obsolescence.

CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study of Strategic Outsourcing at Airtel Kenya. In this Chapter the findings of the research are analyzed according to the objectives of the research, which are, the factors which influenced outsourcing, the implementation of outsourcing and the effects of outsourcing on the company's. Thereafter the findings are discussed in relation to the theoretical foundations and the empirical findings.

The Company comprises of ten departments each headed by a Director who reports to the Managing Director. Only six directors and the Managing Director were interviewed as part of this research. These directors are heads of the following functions Customer Care department, Network department, IT department, Finance department, Supply Chain department, Human Resources department. Other than the Human Resource Director, and the Managing Director the other directors were selected because they had outsourced significant aspects of their functions to external vendors. All the directors that were interviewed held a post graduate degree.

4.2 Factors that Influenced Strategic Outsourcing at Airtel Kenya

The study found that the overarching reason for implementing strategic outsourcing at the Company was that strategic direction to that effect was provided by the parent company Bharti Airtel Limited of India to all its Africa operations. Bharti had significant outsourcing experience having started outsourcing its functions as early as

2004 (Martinez, Jerez and Narayan 2006). Though the primary reason for outsourcing at the Company was the direction given by the parent company, this decision was also influenced, supported by prevailing conditions in the macro environment and competitive environment. Factors, which constitute the macro environment include the political, economic, and social and technology factors (Pearce and Robinson, 2003). The table below indicates the macro environmental factors considered to have influenced or contributed to the decision to outsource.

Table 1: Macro Environmental Factors that Influenced Outsourcing

Department / Factor	**Political**	**Economic**	**Social**	**Technological**
Customer Care		X		X
Network		X		X
IT		X		X
Finance		X		X
HR		X		
Supply Chain		X		X
CEO'S office		X		X

Source: Fieldwork 2013

Of all of these macro environmental factors, the prevailing economic conditions and technological changes had the greatest influence on Airtel's decision to engage in strategic outsourcing. The economic environment in Kenya in the years 2010 to 2012 was characterized by increased costs. The costs increases were related to fuel and power which are key inputs in the running of communication networks. Currency fluctuations during this period also adversely affected the Company as most of the Company's equipment is imported. During the same period the cost of borrowing also shot up. These uncertainties in the macro environment created a need within the organization for cost savings and greater cost predictability leading to the decision to outsource certain functions.

The other macro environmental factor that contributed to the decision to outsource is technological advances. The telecommunications sector is a technology dependent sector and therefore global trends in the management of technology impact the decisions of telecoms companies. The study found that globally there is a trend towards the outsourcing of the provision of Information technology services**.** This trend is influenced by the following factors: Vendors are considered to have more technological expertise than the consumers of their services. They not only have expertise in the production of the equipment but also in the business processes that go hand in hand with the equipment. The vendor also has economies of scale and can offer the services at a better cost than the Company. By outsourcing the provision of technology services a company is able to cut down on the level of skill base it requires and in the process also save on recruitment costs. Lastly by outsourcing the company transfers the ownership of equipment to the vendor effectively transferring the risk and cost of maintenance and obsolescence to the vendor.

Porter (1980) states that the nature and degree of competition in an industry hinges on five forces namely the threat of entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and jockeying among existing competitors. The table below examines how these competitive forces influenced or contributed to the decision by the Company to outsource.

Table 2: Competitive Forces that Influenced Outsourcing

Department/ Factor	**Intense rivalry among competitors**	**Barriers to Entry**	**Influence of Vendors**	**Influence of Buyers**	**Pressure from Substitute products**
Customer Care					
Network			X	X	
IT			X	X	
Finance	X		X		
HR					
Supply Chain	X		X		
CEO'S Office	X		X		

Source: Fieldwork 2013

The most significant factor, in the competitive environment of the Company, that influenced the decision to engage in strategic outsourcing, was the size of the vendors of key technology equipment and the influence that they exerted on the costs of the business. The second most significant factor was the intensity of rivalry among players in the telecoms sector which was driving down retail prices. The other significant factor was the pressure being exerted on the Company by customers who demanded tailor made products to meet their needs.

The IT department and the Network department were all prior to the decision to outsource very dependent on large global vendors of systems and hardware. Airtel would typically buy a box from the vendor and would henceforth be responsible to manage the box with all the attendant costs of maintenance. Airtel would go back to the vendor only for upgrades or for additional capacity. With regard to upgrades Airtel would bear the cost of upgrades. Airtel found this position untenable as it could not keep up with the vendors' frequent upgrades that rendered the existing equipment obsolete in a very short span of time. Outsourcing enabled Airtel to pass on the risk and costs of maintenance and obsolescence to the vendor, while at the same time enjoying superior services from the vendor effectively reducing the power that the vendors exacted on the Company's costs. Following the implementation of the decision to outsource the vendor retains ownership of the equipment and the Company buys the capacity it needs from the vendor from time to time. Because the vendor retains the ownership of the equipment, the vendor is responsible for maintenance and upgrades as necessary. The outsourcing vendors are able to offer services in this way because the vendors have economies of scale and are serving multiple organizations with similar services.

The telecoms sector is characterized by intense competition. The mobile telephony sector has four players offering mobile telephony services, namely Safaricom, Airtel Kenya, Essar Telecom (also known as Yu Mobile) and Telkom Kenya (also known as Orange Mobile). As at May 2013, Safaricom had a stranglehold on the industry with a market share of 65% and revenue share of 84%. In May 2013, Airtel's subscriber market share stood at 16%, and revenue share stood at 12% while the market shares of Essar and Telkom Kenya stood at 13% and 4.5% respectively. Of the four operators only Safaricom is profitable, having announced billions of profit year on year in previous periods and continuing to be profitable. The other three competitors continue to report losses. The study found that the intense rivalry for revenue and market share within the telecoms sector had led to price erosion due to price competition and this made it very necessary for the Company to relook at its cost model. Outsourcing of certain functions provided an opportunity to hand over the provision of services which the Company could not produce efficiently to third party vendors who had the requisite scale to offer the same services more efficiently.

The telecoms market comprises of two broad segments, the mass market and the high value customer segment. The mass market which typically comprises 90% of the Company's customers pushes prices downwards with their demand for a standard product at an affordable price. On the other hand the high value customer segment which comprises 10% of the Company's customers but contributes 50% of the Company's revenues, require tailor made products. Most of the high value customers are businesses or high net worth individuals who want products that meet their business needs. These customers require product innovation and customization. The study found that the Company does not have the skill or the resources or the scale to provide the customization in house in a cost efficient manner and therefore outsources the provision of these specialized services to its partners because the partners have the scale to offer the services cost efficiently. The outsource partner is also able to provide the service faster or solve problems faster because it has the requisite technical expertise.

The desire for certain operational benefits also influenced the Company's decision to outsource. The desired operational benefits are the need to focus on the core business of the Company, the need to achieve enhanced efficiency, the need to access superior services of the vendors as well as the need for standardization across the various Bharti operating companies within Africa. The table below indicates how these desired operational outcomes, influenced or contributed to the decision to outsource.

Table 3: Other Factors that Influenced Outsourcing

Department / Factor	**Focus on Core business**	**Enhance Efficiency**	**Access to superior Resources**	**Standardization**
Customer Care	X			X
Network	X	X	X	
IT	X	X	X	
Finance	X	X	X	X
HR	X	X		
Supply Chain	X	X		
CEO'S Office	X	X	X	

Source: Fieldwork 2013

In all departments, outsourcing enabled the Company to focus on its core business. The Company sees its core business as the marketing of telecommunication services and every other service as incidental or peripheral. The Customer Care department sees its core role as strategizing on how best to resolve customer complaints and problems. The Network team contributes to the Company's core function by ensuring that there is sufficient network capacity to meet the demand for the Company services and also by ensuring that the quality of service the Company offers its customers is of superior quality. By outsourcing the management of towers, the management of the active and passive components of the network the department is better able to contribute to the Company's core objectives. The IT department contributes to the core business of the Company by providing products, services and solutions that meet customer needs. By outsourcing, systems and equipment management and product development, the IT team is better able to contribute to the Company's core business. The Finance team contributes to the core business of the Company by providing strategic focus on revenue and cost. The finance team carries out analysis of revenue maximizing opportunities as well as cost minimizing opportunities to ensure that the Company is profitable. By outsourcing the management of transactions, the finance team is able to focus on this key role.

The Company, generally, benefited from enhanced efficiency with the Customer Care department being the only department that did not report enhanced efficiency from its outsourcing activity. The study found that the departments reporting enhanced efficiency had experienced it because of the size and scale of the vendor. The vendors were able to offer the outsourced services at a cost that the Company could not attain. Furthermore, the vendors' experience in offering the services to other corporations as well as the vendors superior technical knowhow enabled the vendors to offer the services and provide the solutions required more speedily than if the services were rendered in house.

By outsourcing within the Network, IT and Finance departments the Company generally gained access to superior services of the vendors. The vendors are subject matter experts and therefore offer a more superior service than the Company would offer if the function was offered in house. The degree of error was much reduced. The study also found that in many cases, the profit maximization motive resulted in the vendors cutting costs and therefore offering less than optimal services. This conflict was experienced by the Network and IT departments to some extent. However, in the people facing departments such as Customer Care, HR and Supply Chain, there was general dissatisfaction with the level of service offered by the vendors and a belief that the Company would offer a more superior service if the services were rendered in house.

The study found that being part of a multinational enterprise, there were services that needed to be standardized across all the Africa operations of Bharti Airtel Limited namely the Customer Care and Finance function. Because customers move from country to country, it is necessary that the standard of customer service is comparable in all its Africa operations. Similarly it is necessary that financial reporting is standardized across all operations in order to measure performance in the same way.

4.3 How strategic outsourcing has been implemented at Airtel Kenya

Because the decision to outsource came from the parent company, there was generally no opportunity for the various department heads to carry out a formal process of evaluating whether or not it was better to perform the services in house or to outsource the same. The study also found that the directors were not given adequate time to plan for the transition of staff, equipment and processes to the outsource vendors. The various heads of department trusted the parent company which had extensive expertise in outsourcing in India and followed the guidance that was offered.

In the Customer Care department the entire call center, back office and operations functions were outsourced to SPANCO RAPS a company that has international experience in business process outsourcing. No formal process was used to assess the suitability of outsourcing vis a vis providing the services in house. Because of the top down approach in reaching the decision, the head of department and the various managers were not involved in reaching the decision. The decision to outsource was communicated to them only at the point of implementation. Consequently, adequate time was not provided for the transition of people, services and equipment to the vendor and this resulted in service degradation. An attempt was made to source for the most suitable vendor by issuing a formal request for proposal (RFP) to the public. However the process was abandoned and SPANCO selected because it was well known to the parent company Bharti Airtel of India.

Outsourcing of the above mentioned services to SPANCO involved the transfer of 61 members of staff to SPANCO and retention of 35 members of staff to supervise the vendor. The 35 members who were retained were mainly managers and supervisors who were required to oversee and guide the outsourced organization. Great care was taken to ensure that the staff that were outsourced were absorbed by the vendor on comparable terms to those which they had while at Airtel. Transfer of staff was preferred to redundancy, as it ensured business continuity. A communication plan was put in place to handle any concerns by members of staff who were being affected by the outsourcing decision. The formal communication started with a town hall meeting where the organization was informed by the Chief Executive Officer (CEO) and the Human Resources Director of the decision to outsource. This was followed by written communication to affected staff on the terms of their transfer to SPANCO.

Outsourcing in the Network department was to multiple vendors, namely; Nokia Seimens, Ericsson, Comviva, KDN, Kenya Towes and Alcatel. Each of these vendors took over a specific component of the network architecture to manage. Nokia Siemens is the lead outsource partner with responsibility for managing the active and non-active components of the network. The active components, refers to those parts of the network that are responsible for carrying communication from one place to another. The passive infrastructure comprises of the physical structures, such as the tower, the generators and batteries that serve the active network components. Nokia further outsources to third parties the management of the passive infrastructure. Ericsson is primarily responsible for the management of the IN platform. The IN platform is the component of the network responsible for prepaid billing. Comviva has been charged with the responsibility of managing the equipment that facilitates the sending and receiving of Short Messaging Services. KDN has been given the responsibility for providing long distance transmission of communication over its optic fiber network; Kenya Towers manages the towers, of the Company by managing relations with landlords, while Alcatel is responsible for the WAN (Wide Area Network) IP Network.

The decision to outsource in the network department was influenced by global industry trends and preceded the arrival of Bharti into Africa. The decision to outsource the passive and active network components to Nokia Siemens was arrived at by Zain the shareholder of Airtel Kenya who preceded Airtel and who already had an outsourcing model. Under the Zain outsource vendor, the Company retained ownership of the equipment but the vendor was responsible for the maintenance of the equipment. When Bharti took over the ownership of the Company they could not change the outsource vendor because the switching costs would be too high. However, Bharti did make changes to the existing outsourcing model from one involving the purchase of equipment boxes to one involving the vendor retaining ownership of the equipment and the Company merely acquiring Erlangs. This model had been perfected by Bharti in India. Bharti did also take some functions that had been left to Nokia Siemens to manage and handed them over to smaller vendors to manage.

Because the decision to outsource network components was reached at the shareholder/corporate level, the management of Airtel Kenya was not involved in reaching the decision whether or not to outsource or which vendor to outsource to. However, the local Chief Technical Officer and his team of managers were required to do the technical evaluations and to ensure a good fit between the selected vendors and Airtel Kenya. The Company did not engage in any formal process of evaluating whether the services would have been better carried out internally or whether it was necessary to outsource. Furthermore, adequate time was not given for the transition of people, equipment, systems and processes and this resulted in severe service degradation in the first two years following the implementation of outsourcing.

Outsourcing within the Network department resulted in the reduction of the number of staff working in the Network department of Airtel Kenya. Out of 131 total staff, 114 staff were transferred to work Nokia Siemens on terms comparable to those on which they worked at Airtel Kenya together with all their accrued benefits. The remaining staff were to oversee the vendors. Transfer rather than redundancy was preferred to avoid loss of skills and to ensure smooth continuity. To ensure job security, it was agreed between Airtel Kenya and Nokia Siemens that the said staff would not be laid off for a minimum period of two years. However, immediately after the expiry of the two years, Nokia Siemens immediately further outsourced the services it was offering to the Company to a third party related to Nokia going by the name Global Network Operating Center, based in India. This further outsourcing resulted in the laying off of staff that had been transferred to Nokia Siemens in favour of creation of jobs in India. For the staff transfer to Nokia Siemens a communication plan was put in place to handle any concerns by members of staff who were being affected by the outsourcing decision. The formal communication started with a town hall meeting where the organization was informed by the CEO and Human Resource Director of the decision to outsource. This was followed by written communication to affected staff on the terms of their transfer to Nokia Siemens.

Outsourcing in the IT department was also to multiple vendors, namely; IBM, Comviva, Computech, Avaya and Mara Ison. IBM is the lead outsource vendor and was given the responsibility of managing the Company's standard IT requirements such as, product development, financial reporting requirements, billing systems, connectivity etc. , Comviva was charged with managing the telecoms IT technology largely Airtel Money Services and Short Messaging Services (SMS). Computech was given the responsibility of managing the company's desk top needs which includes the provision and the maintenance of the same. Avaya supports the call center technology and Mara Ison provides IT support services through a help desk to the Company. IBM was by far the largest outsource partner for the IT department. The decision to outsource to IBM was reached at the Shareholder/ Corporate level because Bharti and IBM already had a 10 year relationship arising from its operations in India. All other vendors serving the IT department save for Computech which is a local company were selected by Bharti based on historical relationships.

The Company did not engage in any formal process of evaluating whether the services would have been better carried out internally or whether it was necessary to outsource. Furthermore, adequate time was not given for the transition of people, equipment, systems and processes and this resulted in severe service degradation in the initial stages following the implementation of outsourcing. The IT director for Airtel Kenya was involved in implementing the decision to outsource to vendors selected by Bharti and this involved ensuring smooth transition of resources, infrastructure and processes from Airtel Kenya to the vendor. The IT director was involved in the process of selecting Computech which was selected after the issue of an RFQ for which 3 bids received and Computech was selected based on best match of the vendors' capabilities and the requirements of Airtel Kenya.

Prior to the decision to outsource the IT department comprised of 48 members of staff. 44 of these staff were transferred to IBM and 4 were left at Airtel Kenya to manage all the outsource partners. Transfer rather than redundancy was preferred to avoid loss of skills and to ensure smooth continuity. A communication plan was put in place to handle any concerns by members of staff who were being affected by the outsourcing decision. The formal communication started with a town hall meeting where the organization was informed by the CEO and Human Resource Director of the decision to outsource. This was followed by written communication to affected staff on the terms of their transfer to IBM.

Outsourcing in the Finance department involved one vendor Airtel Center of Excellence (ACE) which is one of the Bharti group of companies, and as such the decision to outsource was reached at the shareholder/corporate level. ACE took over the management of transactional activities such as the processing of vendor payments, cash and bank management. The Company did not engage in any formal process of evaluating whether the services would have been better carried out internally or whether it was necessary to outsource.

Once the decision was reached that ACE was the outsource partner, the vendors' representatives and the finance team carried out an exercise that involved the documentation of existing business process and knowledge transfer. Adequate time was not given for the transition of people, equipment, systems and processes and this resulted in increased fraud, errors in reporting and delays in paying suppliers, in the initial stages following the implementation of outsourcing. However, shortly thereafter there was a pilot run for one month where the staff of Airtel Kenya handheld the ACE staff. After that, there were monthly engagements involving the Finance Director to ensure that the service offered by the vendor was optimal. Following the outsourcing of financial transaction services to ACE, the Company redeployed the affected staff to other roles within the Company and as a result there were no job losses. A communication plan was put in place to handle any concerns by members of staff who were being affected by the outsourcing decision. The formal communication started with a town hall meeting where the organization was informed by the CEO and Human Resources Director of the decision to outsource.

The Supply Chain Department has outsourced the provision of logistics, warehousing, distribution, fleet management and cleaning services. Logistics and warehousing services are provided by Bollore (formerly SDV Transami), distribution deliveries are done by motor cycle by Jihan and Bob Morgan, the fleet is leased from Ryce Motors and cleaning services are offered by FMS. Bollore is a global logistics firm while the other outsourcing partners are local. The decision to outsource these services to the vendors was reached by the management at Airtel Kenya. Before the vendors were selected a formal evaluation process was carried out to establish whether it was best to offer the services in house or through an outsource vendor. The existing structure and associated costs were evaluated vis a vis having the services offered by a vendor. Request for Proposals (RFP) were sent to known local vendors. The proposals were evaluated locally and single candidates shortlisted. The Company was in this case able to select, vendors who best fit its needs. The only challenge that the Company faced was that staff who were transferred to the partner Bollore, soon exited as they could not cope with the working conditions of the vendor.

4.4 The effect of strategic outsourcing on the business of Airtel Kenya.

The research found that strategic outsourcing at Airtel Kenya, brought a mix of benefits to the Company as a whole. Strategic outsourcing was found to have enabled the organization to focus more on core activities, attain cost savings, attain cost control, manage vendor influence, access superior services, reduce the risk of technology obsolescence, attain efficiency and bring about standardization. These benefits were enjoyed by the various departments to varying degrees. The table below indicates the benefits that each of the departments gained from outsourcing within the respective department.

Table 4: Strategic Benefits of Outsourcing

Department/ Factors	**Focus on core activities**	**Cost savings**	**Cost control**	**Managing vendor influence**	**Access to superior services**	**Managing technology risk**	**Efficiency**	**Standardization**
Customer care	X							X
Network	X		X	X	X	X	X	
IT	X		X	X	X	X	X	
Finance	X				X			X
Supply Chain	X	X			X		X	

Source: Fieldwork 2013

In the Customer Care department, outsourcing did not deliver significant benefits to the Company because of the challenges posed by the competence of the outsource vendor. That notwithstanding, the Company did observe some degree of focus on core activities and standardization of services within Africa. When the operations were performed in house, the managers in the department were distracted from their core focus by managing staff issues like managing absenteeism, leave, shift management and transportation. Following the outsourcing, the Customer Care department is able to focus on directing customer service in accordance with the strategy of the Company. The study indicated that outsourcing of the functions within the department did not result in cost savings. It was found that the Company spends more on offering the service than it did when the service was rendered in house. Outsourcing also did not achieve cost control for the department, as the Company enjoyed a flat cost when the services were rendered in house and the outsource model that was adopted introduced a variable cost. Before outsourcing the department costs were predictable as they comprised the staff costs only. Under the outsource model the Company pays for every minute of call answered by the call center making the cost less predictable. Because the outsource vendor charges per minute of call received at the call center there is no incentive to reduce the number of calls to the call center through other interventions with the customers. As a result the Company has observed an increased in the number of repeat calls which indicate that customer issues are not resolved during the first call. When the service was rendered in house there was great motivation to reduce call volumes and to maintain staff levels at a minimum without compromising service levels.

The most significant challenge that the department faced when it outsourced its services, was the degradation of the customer service that affected the customers' experience. This in turn affects the Company's revenues as dissatisfied customers seek services elsewhere. Being a foreign entity with a local presence in Kenya, SPANCO RAPS did not appreciate local customer needs and as such failed to deliver best in class customer service. Another challenge has been in the form of labour unrest arising from the transferred staff. Though the staff were transferred to the outsource vendor on comparable terms as those they held while employees of the Company, they perceived the outsource vendor to be an inferior employer and resorted to strikes and suits to address their grievances, resulting in loss of service to customers. Another challenge, faced is that the staff who remained in house, spend an inordinate amount of time managing the outsource vendor.

The outsourcing benefits that the Network Department enjoyed are, focus on core business, cost control, managing vendor influence, access to superior services, managing of technology risk and enhanced efficiency. By outsourcing the department was able to focus on ensuring that the Company has sufficient network capacity to meet the usage needs of the customers of the Company and also to supervise the quality of service that the Company is offering its customers and to ensure that the same is optimal. When the services were performed in house, the network team would be overwhelmed by the demands of managing equipment spread throughout the country, which involved, network optimization, fueling and maintenance of generator sets, security of sites and management of relationships with landlords. The outsourcing of these noncore activities freed the staff to oversee the network to ensure that there was sufficient capacity to meet customer usage needs, the team could also spend adequate time understanding customer needs and focus on meeting those.

Secondly, by outsourcing, the network team gained access to the superior expertise and services of the vendor. Because the vendors are subject experts in the products and processes of network management, products are launched faster and problems are resolved faster. Because it has outsourced the network services, the Company does not need to hire in house the skills necessary to keep up with evolving technology trends but instead would rely on the vendors' skilled staff.

Thirdly, the suppliers of technical equipment in the sector were few and powerful. The Company was dependent on the supplier who had installed its telecommunication network as the equipment of other vendors was not compatible. Because of high level of technological innovations, the vendors would come up with new versions of equipment frequently, whereupon they would stop supporting old versions and the Company needed to upgrade its equipment and therefore needed to invest in equipment constantly. The outsource model adopted by the Company involved the transfer of the ownership of the equipment to the vendor and purchase by the Company of Erlangs (units of usage or capacity) from the vendor instead of buying equipment. This means that the Company buys the capacity it needs and not the equipment and the ownership and maintenance of the equipment remains with the vendor. By outsourcing the Company effectively transfers the risk and cost of equipment obsolescence and maintenance to the vendor.

Previously when the Company was purchasing the equipment it needed to significantly up skill the in house team which meant that the Company invested significantly in having highly skilled engineers and ensuring that the engineers had the skills to match the frequent technological advancements. Following the outsourcing, the Company no longer needs to have a significant pool of expertise and thereby saves the attendant costs.

The study found that by outsourcing the Company achieves cost predictability which helps in financial management. The Company by outsourcing has also benefited from the scale of the vendors' operations as the vendors are able to develop products and solve problems quickly at a cost that the Company could not achieve. It is noteworthy that the Company has not yet benefited from direct cost savings arising from the outsourcing in the Network department, because of the less than optimal operating levels of the vendors. However it is expected that the Company will experience cost savings in a couple of years.

Though the Company was enjoying a number of benefits of outsourcing, immediately following the implementation of outsourcing there was overall network quality degradation due to poor planning. This was subsequently corrected and currently the model has achieved a success level of 80%. The main challenge that the Company has faced in implementing outsourcing at the Network department has been one of governance. Because of the close relationships between the vendors and the parent company Bharti Airtel, contracts have not been enforced strictly and therefore service levels have slipped without penalties being enforced which has resulted in lax practices by the vendors. It was also found that the Service Level Agreements with the main vendors in particular were not adequate to ensure a good level of network performance. This challenge is compounded by the fact that it would be very difficult and costly to switch the outsource vendor. Because the vendors' equipment is very intimately integrated with the equipment and process of the Company it would be very difficult to get another vendor on board to replace existing vendor. The learning curve would also be too steep as the new vendor would need to learn how the company's systems work before offering a solution. Another challenge is that of competing business interests. Because the outsource vendor also manages its own profit and loss statement, there is a great temptation to cut costs which in many instances result in substandard services. Because many of the staff in the department was outsourced, those who were left behind were demoralized and demotivated. The low level of staff morale is further exacerbated by the less than optimal service offered by the vendor which means more work and responsibility falls on the reduced staff

The outsourcing benefits that the IT department enjoyed are, greater focus on core activities, cost control, management of vendor influence, access to superior services, managing of technological risk and efficiency. The IT department considers that the most significant benefit the Company has reaped from outsourcing is the ability to focus on core business of the Company which is meeting customer product requirements. Prior to the outsourcing of the function, the IT department was a utility department meeting the hardware and the software demands of the Company. In addition 90% of the function's time was spent focusing on back end issues and very little time spent serving customers. Instead of adopting the Company's system capabilities to meet customer needs the Company tried to get its customer to fit within its system capabilities. Following the outsourcing, the IT department's functions have evolved so that the IT department is now more customer-centric and is now considered part of the business processes of the Company, able to meet customer needs. The Company now practices Customer Oriented Business IT and service levels to customers have improved.

The Company did not achieve notable cost savings from outsourcing to the various vendors in the IT department but it has attained cost predictability since the service rates are pre-agreed and fixed with the various outsource vendors. In the first year of outsourcing the main vendor agreed to match the Company's existing cost structure with a promise to reduce the cost every subsequent year. Similar to the Network department the outsource model involves using the vendor's equipment and systems to offer services to customers. The vendor therefore is responsible for system and equipment upgrades and in this way the Company has managed the risk of obsolescence and also managed the vendors' ability to pass the cost of these upgrades to the Company. The very lean IT department now depends on the vendor expertise to develop products that the customers require by articulating customer needs for product differentiation to the outsource vendors who are now responsible for the actual product development. In this way the Company taps the superior knowledge base of the vendor. The vendor is also able to offer the services at competitive costs because it has the requisite scale and offers similar services to other corporations using the same resources. Lastly, the Company has achieved efficiency through dependence on the vendors' skill and resources; the Company is able to meet customer needs on a shorter time line.

Similar to the findings for the Network department the study found that the outsourcing within the IT department also faced some challenges. Immediately following the implementation of outsourcing the IT departments suffered poor service delivery from the outsource vendors. Because of poor planning there were system hitches and delays in service delivery. The most significant challenge the department faces is the inflexibility of partner processes which can impact the Company's speed to market especially with new product developments. The main vendor's structure is very hierarchical and this makes it difficult to solve customer issues. Lastly, the Company would not be able to switch the main vendor even if it desired to because the contract is for a minimum of 10 years with huge penalties in case of exit. IBM's initial cost was huge as it included overhauling the entire infrastructure of the Company at the beginning with the hope of recouping the cost over time.

The study found that the most significant benefits of outsourcing within the Finance department were the ability to focus on the core business of the Company, access to superior services of the vendor as well as standardization. Prior to outsourcing within the

Finance department the department spent most of its time on transactional activities which are back end in nature. Following the outsourcing the Finance function is now able focus on driving the commercial agenda of the business and providing strategic direction. More of the Finance Director's time is now spent supporting the sales and marketing function. Secondly, centralization of outsourcing at India created expertise which the Company could ride on. Because the vendor has the expertise, the systems, the experience and the scale, it is able to offer the services more efficiently than when the service was being offered in house. The degree of error and fraud is minimized as the vendor has adequate control measures. Because of efficient processes the vendor is able to provide the information required by the business for decision making quickly and in a reliable format. Lastly outsourcing has helped the Company achieve standardization of its reporting across its Africa operations. This is of great significance to the parent company as being a global company it requires standardized reporting across its many operations.

The implementation of the outsource model in the Finance department faced some challenges. The decision to outsource was reached hastily without carrying out a proper due diligence. As a result the Company experienced a fraud, errors and major delays in processing of payments to suppliers for up to five months. There were also financial reporting hitches because of application of wrong currency. Because of the hasty implementation of the outsourcing there was no time to fix issues of connectivity between Kenya and India. The bandwidth that existed was inadequate and needed to be expanded for the service across continents to be optimal. There were also language challenges and barriers at the beginning. Even though India is an English speaking country, the accent and nuances are different from those used in Kenya and initially posed communication challenges. The outsourcing of finance function has not resulted in cost savings as the costs that the Company incurred when the service was rendered in house (largely human resource costs) were cancelled out by the management fee to the vendor.

The most significant benefits of outsourcing in the Supply chain department were focus on core activities, access to superior services, cost savings and efficiency. By outsourcing the Company was able to hand over the performance of services that it considers not core to its business to an external vendor who is a subject matter expert. These services are distribution deliveries, managing of fleet of vehicles, cleaning, warehousing and logistics. Prior to outsourcing, these services took a lot of management time and resources in the Supply Chain department. Now the department is able to focus on procurement of key supplies to meet business needs. In the area of warehousing, logistics and fleet management the Company is able to take advantage of the superior expertise and processes of the outsource vendor. The vendor not only offers a superior service but the study found that the vendors services were generally offered more efficiently than when the services were offered in house. This is because the vendor has the expertise, scale and processes in place. The vendors because of the scale of their operations were also able to pass on cost savings to the Company. The study found that it was cheaper to have the services offered by the vendors than supply them in house.

The challenges faced by the Supply Chain department in outsourcing were largely related to human capital. The staff who were transferred to the vendors business were discontented because of the different work ethic and culture that they found at the vendors establishment. Staff disengagement affected outputs in the initial stages. Lastly the relationship between the Company and the vendors is always in a state of tension as the vendors want to transfer incremental costs to their business to the Company and the Company does all it can to resist all such pressures.

4.5 Discussion

In this section we set out how the results of the study compare to the theoretical foundations as well as the empirical studies. We provide the links between the findings of the study and the theoretical foundations as well as links between the findings of the study and empirical studies.

4.5.1 Link to Theory

The study confirmed that Airtel engaged in strategic outsourcing. Outsource vendors like IBM and Nokia Siemens are strategic partners, who are first and foremost partners of the parent company Bharti Airtel and their provision of services to Airtel Kenya is part of the corporate strategy of Bharti Airtel. The nature of the relationship of these most important vendors is that of long term partnerships with contracts being for at least 10 years. These vendors' equipment and business processes are intimately intertwined with the equipment and business processes of Airtel Kenya.

The purpose of outsourcing at Airtel was to enhance long term value of its business as well make the firm more competitive and improve its chances of survival in the telecoms market in Kenya which is highly dynamic. The study confirmed that if the external environment is highly dynamic then the level of outsourcing is likely to be high. This is because firms in such an environment will choose to transfer the risks inherent in that industry to the outsourcing supplier (Gilley, McGee, and Rasheed 2004). At Airtel, two prevailing macro environmental conditions, provided justification for the Company's decision to outsource, namely the prevailing macro-economic conditions and technological advancements that resulted in frequent obsolescence, both of which constrained the Company's ability to make profit. By outsourcing services like the management of Base Transmission Stations, the Company effectively transferred to the vendor the risk of unpredictable fuel costs. Similarly by outsourcing Network and IT services the Company was transferring the risk of obsolescence to the vendors.

In addition, the competitive environment in which Airtel was operating was also constraining its ability to grow and become profitable. Strong suppliers whose services could not be easily swapped; price sensitive and disloyal low end customers as well as high end consumers who demanded customized products; and intense rivalry from other operators in the industry resulting in price competition, were all driving the Company's profitability down. By outsourcing Airtel managed to control ability of the few and powerful suppliers to impact its cost structure. By outsourcing the Company was able to be customer-centric by focusing on meeting customer needs.

According to Porter (1980) understanding and satisfying customer needs is crucial for an organization to sustain a competitive advantage in the market. Zhang and Cao (2002) also state that the need for flexibility to meet fast changing customer needs forces an organization to restructure its goal, organization structure and business process and use outsourcing to meet customer needs so as to gain a competitive position in the value chain. Accordingly, the study demonstrates that the drive to be customer centric also led Airtel Kenya to outsource some of its functions. The Company was restructured to better understand and meet customer needs, so that customers no longer need to adopt to the Company's system capabilities but using the outsource partners, the Company's systems and capabilities were adapted to meet customer needs. The demand by mass consumers for low prices also pushed the Company to outsource services that could be produced more cheaply by the outsource vendor while the demand by high value customers to obtain tailored products and services drove the Company to utilize the superior competence of the outsourcing partners.

Porter (1980), Gilley and Rasheed (2000) established that outsourcing peripheral activities may better benefit organizations pursuing cost leadership strategy and outsourcing core activities may better benefit organizations pursuing differentiation strategy, since organizations pursing cost leadership strategy need most to reduce the peripheral costs , whereas organizations pursuing the differentiation strategy need most the skills for improving the quality of core activities. The study found that Airtel Kenya adopted both a low cost strategy and a differentiation strategy depending on the market segment that it was addressing. The low cost strategy was applied towards the mass market and the differentiation strategy was applied towards the high value customer segment. As such it combined both the outsourcing of non-core activities and the outsourcing of core activities.

The Transaction Cost theory states that organizations are economic actors using the most efficient mechanism for transactions (Williamson, 1981). If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale (Grover et al 1996). It would however take advantage of the economies of scale and scope of the vendor while at the same time reducing internal co-ordination costs. However the firm that outsources will increase its external co-ordination costs. Airtel Kenya, outsourced to vendors who has sufficiently large enterprises and who had the requisite scale to offer the services, more efficiently than the Company could have achieved. As a result the Company benefited from the cost efficiency of the vendor as well as speed to market because the vendor had the requisite skill to offer solutions quickly.

The Resource Dependency Theory according to Barney (1991), to fully exploit a firm's existing stock of resources and capabilities in order to develop competitive advantage, the external acquisition of complementary resources and capabilities might be necessary. According to Grant (1991 p 120), this external acquisition is known as "filling gaps" and should be done only after a thorough evaluation of existing resources and deficiencies. The study found that because the decision to outsource was largely led by the parent company, the Company generally did not undertake any formal evaluation method to assess the suitability of outsourcing compared to offering the services in house. As a result the outsourcing project was not well planned and this resulted in less than optimal services from the outsource vendor especially in the initial years.

Lastly the study found that the success of outsourcing can be measured in terms of the strategic benefits that the outsourcing firm gets. Loh et al (1992) enumerate these benefits as firstly the firm may gain strategic benefit by focusing on its core business by outsourcing none core activities and secondly the firm may gain economic benefits by utilizing the economies of scale in human and technological resources of the vendor. Apte (1990) gives a third benefit namely that the firm may benefit from access to superior technology and be able to avoid the risks of technological obsolescence. The study established that the Company attained these benefits as well as other benefits such as standardization of services across different operations of a single shareholder, cost savings and cost control.

4.5.2 Link to Other Empirical Studies

Gulamhusein (2011) in his study of outsourcing by four mobile operators in Kenya found that these companies were influenced to outsource by the following objectives; increased focus on the core business, cost reduction, improved quality of service, increased competitiveness and increased flexibility. The study found that Airtel Kenya was influenced to outsource by similar strategic objectives. Airtel Kenya also had the additional objectives of standardization of services across various operations, access to superior resources of vendors, managing the risk of technology obsolescence and cost control.

The studies by Gakii (2010) and Oyugi (2011) indicate the manner in which outsourcing is implemented is critical to the success of outsourcing and the optimal enjoyment by the firm of the strategic benefits that accrue from outsourcing. As such the involvement of all stakeholders in the decision to outsource as well as proper communication to address staff fear of retrenchment is critical to the success of outsourcing. The study found that Airtel Kenya did not achieve optimal benefits of strategic outsourcing because it failed in some instances to involve all stakeholders in the decision making process. Airtel Kenya took great care to ensure that there was no loss of jobs or skills but despite its efforts it still faced legal suits for job losses in some departments.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMENDATIONS

5.1 Introduction

This chapter presents, summary of the findings of the study as well as conclusions gathered from analyzing the data. The findings have been summarized alongside the objectives of the study.

5.2 Summary

Outsourcing is the practice of hiring outside professional services to meet in-house needs of an organization (Gupta and Gupta, 1992 p.45). Strategic outsourcing is therefore a decision reached by an organization to have certain functions that were previously performed internally performed by an external vendor with whom the Company intends to be in a mutually beneficial business partnership for a long time, in order to respond to factors in the remote and competitive environment and in order to improve the ability of the firm to survive and compete in its environment.

The study found that at Airtel Kenya the Company uses a mix of offshore and onshore outsourcing. Offshore outsourcing refers to dependence on vendors who are located in another continent, such as Airtel Center of Excellence and Global Network Operations Center in the present case who are located in India and onshore outsourcing refers to vendors who are locally based. Airtel also depends on multiple vendors outsourcing so that different services are outsourced to different vendors even within one department. At Airtel the Company outsources, activities that are not core to its business in some department like Supply Chain but in other departments like IT and Network it outsources activities that are core to its business like product development and network management respectively. At Airtel some of the outsource partners like, IBM and Nokia Simens are so intimately integrated into the business of Airtel and Bharti Airtel its parent company that the relationship is one of business partners as opposed to one of vendor and purchaser.

5.2.1 Factors that Influenced the Company to Engage in Strategic Outsourcing

Outsourcing at Airtel Kenya was largely influenced by its parent company Bharti Airtel Limited of India which had extensive outsourcing experience in its operations in India starting from 2004. The study found that two prevailing macro environmental conditions also provided justification for the Company's decision to outsource, namely the prevailing macro-economic conditions and technological advancements, both of which constrained the Company's ability to make profit. The rising cost of doing business in the macro environment forced the Company to look for ways to transfer these costs to vendors, while rapid technological advancement was rendering the Company's equipment obsolete over very short periods and this motivated the Company to outsource and transfer the risk of obsolescence to the vendors.

Competitive forces in the industry also contributed to the decision to outsource, intense rivalry in the telecoms sector was putting pressure on prices. This motivated the Company to pursue a cost leadership strategy by outsourcing noncore activities. At the same time the Company's customers were exerting pressure on the Company's prices with the mass market demanding low prices while the high value customers, who were few in number but made significant contribution to the Company's revenues were demanding more customized products at affordable rates. In addition, the suppliers of telecoms equipment were few in number with products that could not be integrated with the products of other suppliers making it difficult to switch from one supplier to another. The suppliers constrained the Company's ability to be profitable with their frequent equipment upgrades and their decisions not to support prior versions of the equipment which required that the Company continuously invest millions of dollars in equipment and write down previous investments.

Lastly, the Company outsourced in order to achieve some strategic benefits. The strategic benefits that the Company intended to achieve were, the ability to focus on the core activity of the Company which is to offer communication services to the public. By focusing on its core mandate the Company would become more customer centric. The Company also sought to attain efficiency in its operations, which entailed speed to market through quick innovations as well as quick solutions to problems experienced by customers. The Company also wanted to use the superior expertise of vendors where it lacked the capacity in house or in situations whereby it would be too costly to develop the capacity internally. Other strategic benefits that the Company sought to attain are, control of the vendors' ability to impact the Company's costs, cost saving, cost control and standardization of activities across many operations.

5.2.2 How Strategic Outsourcing Has Been Implemented at Airtel Kenya

The study found that because the decision to outsource was largely led by the parent company, the Company generally did not any undertake formal evaluation method to assess the suitability of outsourcing compared to offering the services in house. The Company drew its confidence from the fact that its parent company had benefited from extensive experience in outsourcing in India. As a consequence most of the major vendors were selected by the parent company and did not go through any pre-qualification exercise by the Company. Consequently the directors and managers of the various departments were involved in the outsourcing projects only at the implementation stage. It is only in the Supply Chain department that formal evaluation was taken to assess the suitability of outsourcing and where vendors were subjected to a prequalification process before being selected to offer the services. The director for Supply Chain had a free hand in implementing the outsourcing model within his function and this is largely because the activities being outsourced were of minimal financial significance. The informality observed in the outsourcing process resulted in poor planning of the implementation of the outsourcing project and impacted the governance of the outsourcing partners. In some cases the contracts were not effectively drafted, in other cases, the Service Level Agreements though in place were not enforced and the overall perception of the directors was that the outsourcing results were less than optimal.

The study also found that great care was taken in the handling of staff. In all cases the Company avoided the retrenchment and opted to transfer staff to the outsource vendors on comparable terms to avoid loss of skills and ensure smooth transition of both the staff and the services that had been outsourced. In the case of the Finance Department, staff were redeployed to other functions within the Company. Great care was also taken in communicating to the affected staff and the remaining organization on the objectives and implementation of the outsource model. However, despite these efforts, in the Customer Care department and the Supply Chain department, there was a clash of cultures and staff who were transferred found the working conditions at the vendors premises untenable leading to industrial unrest and exits.

5.2.3 The Effect that Strategic Outsourcing has had on the Business of Airtel Kenya

The study found that even though the implementation process was rather informal, the Company has experienced significant benefits from outsourcing. The most significant benefit was that the Company as a result of outsourcing noncore activities was able to focus more on its core mandate which is to provide communication services to its customers. Outsourcing allowed the Company to be more customer-centric so that all efforts are spent on serving the customer and peripheral activities are handled by the vendors. Outsourcing also gave the Company access to superior resources of the vendor, and as a result the Company saved the cost and effort of having to develop these resources and competencies in house. The Company also benefited from the vendors efficiency. Because of the vendors' competence, resource base and scale, it was able to offer products quickly, resolve problems expeditiously and at a much lower cost than the Company could achieve on its own. Outsourcing also enabled the Company to manage the vendors' ability to impact its cost structure. By purchasing capacity instead of equipment from the vendor the Company insulated itself from the cost of constant upgrades. By ensuring that ownership of the equipment remained the vendors the Company also managed the risk of technology obsolescence by passing it back to the vendors. Other benefits that the Company enjoyed was cost predictability that helped the Company achieve better financial management, standardization of services and financial reporting across various related operations within Africa and to a small extent cost savings.

The study found that in the implementation of outsourcing at Airtel Kenya was faced with some challenges. The fact that the decision to outsource, largely originated from the parent company and local managers were not consulted in arriving at the decision to outsource or in the selection of the vendors, posed a significant challenge to the management of the Company in the implementation of outsourcing. The directors were also required to implement outsourcing without adequate preparation and as a result there was a gap in understanding what was to be expected from the vendors. Where the vendors were handpicked by the parent company they had an upper hand over the management. The management had to report incidents of poor performance to the parent company before any action could be taken against the vendor. Because of the hasty implementation of the outsourcing in some departments, the contracts that established the relationship were inadequate to ensure proper service levels. Poor governance of the outsource vendors resulted in less than optimal outputs. The conflict between the vendors' and the Company' interests also resulted in the vendors exploiting governance gaps to the detriment of the Company. Lack of full staff buy-in of the outsource model especially in the Customer Care department led to customer service degradation at a time that the Company was trying to become more customer centric. Lastly, staff transfers in some instances were not successful because the staff who were transferred could not tolerate the working conditions of the vendor where they were transferred. This resulted in industrial action and further degradation of services.

5.3 Conclusion

Strategic outsourcing is a decision reached by an organization to have certain functions that were previously performed internally performed by an external vendor, with whom the firm enters into long term and mutually beneficial relationship with the objective of enabling the firm to better respond to factors in the remote and competitive environment and in order to improve the ability of the firm to survive and compete in its environment. The study found that at Airtel Kenya, the Company uses a mix of offshore and onshore outsourcing. Airtel also depends on multiple vendors for outsourcing so that different services are outsourced to different vendors even within one department. The study found that Airtel Kenya adopted both a low cost strategy and a differentiation strategy depending on the market segment that it was addressing. The low cost strategy was applied towards the mass market and the differentiation strategy was applied towards the high value customer segment. As such it combined both the outsourcing of non-core activities and the outsourcing of core activities depending on the Company's objectives.

Outsourcing at Airtel Kenya was largely influenced by its parent company Bharti Airtel Limited of India which had extensive outsourcing experience in its operations in India. The study also found that the state of the external environment as well as the nature of competitive forces within an industry can influence a firm towards strategic outsourcing. The environment in the telecommunications sector in Kenya proved to be highly dynamic as well as complex making it necessary for the Company to outsource in order to survive. The environment in which Airtel was operating was constraining its ability to grow and become profitable. High costs in the macro- economic environment as well as high levels of technology obsolescence; strong suppliers, price sensitive and disloyal mass consumers; high value customers who demanded customized products; intense rivalry among mobile operators resulting in price wars all contributed to influencing the decision by the Company to outsource. By outsourcing the Company hoped to transfer the risks inherent in the environment and the telecoms industry to the vendors.

Lastly, the Company was also influenced to outsource by the strategic benefits that accrue to firms' that outsource. The Company desired to focus on its core business which is to provide communication services to its customers and become more customer-centric. The Company outsourced non-core activities in the various departments, so that it could focus better on serving its customers. The Company also outsourced core activities like network management and product development to vendors who were subject matter experts so as to benefit from the vendors superior expertise and save on the effort of developing similar capabilities in house. By outsourcing the Company also hoped to benefit from the vendors' scale and expertise so that products and solutions required by customers could be developed more expeditiously. By outsourcing, the Company also hoped to reduce the power equipment vendors had over the costs of the business. Other strategic benefits that the Company hoped to achieve are, cost control, cost savings and standardization of services across various operations.

Airtel Kenya did not carry out a formal evaluation of its in-house capabilities vis a vis, the vendors capabilities before embarking on strategic outsourcing because the decision to outsource was arrived at by its parent company Bharti Airtel Ltd of India which had extensive outsourcing experience. As a result of the exclusion of the Company's senior management from the decision to outsource and the lack of a formal evaluation to justify the need for outsourcing, the senior management lacked complete by-in regarding the decision to outsource. As a consequence of the lack of formal evaluation, the Company outsourced the Customer Care department when all indications are that customer service was better handled in house. The lack of proper planning for the implementation of the outsourcing project resulted in less than optimal results with service degradation, errors and fraud being the consequences.

At Airtel Kenya, the governance of outsource vendors was not well handled yet governance is key to the success of the firm and outsource partner relationship. Governance involves ensuring that the relationship between the vendor and the firm is completely transparent and that responsibility and accountability for various activities is clear from the outset. The preparation of watertight contracts, setting out the roles, responsibilities of each party as well as the expected service levels clearly is therefore very important. The contracts should also provide for consequence management such as penalties and ultimately contract termination in the event that agreed service levels are not met. At Airtel Kenya the in-house teams were not empowered to exercise consequence management on the vendor and had to report incidents of non- performance to the parent company leading to some outsource vendors having an upper hand over the in-house teams.

At Airtel Kenya, managing of staff welfare was considered critical to the successful implementation of an outsourcing project. Where the staff had specialized skills, or where it was necessary that services are not disrupted at all, the staff were transferred to the outsource vendor. Airtel's scheme of transferring staff to vendor partners was generally successful in the departments like Network and IT where the engineering staff were highly specialized and could fit into the vendors organization. Challenges of staff motivation, labour unrest and exits were experienced in Customer Care and Supply Chain departments where staff were not specialized and did not readily fit into the vendors' organization. Preparing staff to handle the different culture at the vendor organization might also help mitigate against labour dissonance.

The Airtel study showed that outsourcing of system facing services like Network and IT recorded greater satisfaction levels than the outsourcing of customer facing and human resource facing services as experienced by the outsourcing of the Customer Care and Supply Chain services respectively. Had the Company carried out an evaluation to consider the suitability of outsourcing vis a vis retaining the services in house the Company may have considered retaining the provision of customer facing services in house to avoid falling out with its customers.

5.4 Recommendations

The study recommends that the involvement of senior management of the Company in the decision to outsource is critical to the success of outsourcing. Their involvement will ensure their buy in and their contribution to the successful implementation of the outsourcing. The involvement of senior management of the Company also gives them clout in the eyes of the outsourcing vendors and this gives the senior management an upper hand when it comes to management of the vendors and the implementation of consequence management. Involvement and empowerment of local senior managers is therefore something that the Company can improve going forward.

The study in addition underscores the need for a formal evaluation to determine whether services are best rendered in house or by an external vendor. This analysis can protect the company from costly mistakes which impact customers and staff negatively. Had the Company taken this critical step it may have avoided outsourcing the Customer Care department as the service offered by the vendor was inferior yet more expensive than the service offered in-house.

Outsourcing most often results in the restructuring of the business. The handling of staff is critical to the success of the outsourcing project. Mishandling of staff can result in loss of skills that the firm needs expensive legal suits, labour actions or other forms of business interruptions. Airtel Kenya, took the decision to transfer staff to the vendors to avoid loss of skills and business disruptions. Communication to staff as to what happens to their jobs is also very critical to the success of outsourcing and therefore communication needs to be clear and transparent. Communication should involve staff directly affected by the outsourcing as well as the staff who will remain. Airtel Kenya handled this well, with communication to the entire organization through town hall meetings and individual communication to the members of staff affected directly.

Management of the vendor output is central to the success of outsourcing. This starts with the vendor selection process. This should be formal and involve the use of Request for

Proposal and the selection of the vendor who best meets the business requirements. Next, the expectations of the vendor should be clearly spelt out in a written contract which also sets out the firm's obligations. The contract should also set out the service levels expected from the vendor and the consequences of non compliance with the service levels. The consequences should include financial penalties as well as the option to exit in grave situations. The management of the Company should be fully empowered to give effect to these consequences.

Lastly the study demonstrated that outsourcing can result in either the creation of jobs or the loss of jobs locally. Off shore outsourcing leads to job losses in the local market while on shore outsourcing creates jobs. The Government should investigate the impact of outsourcing on local labour and on the Kenyan economy as a whole. The Government should develop policies and regulations that encourage Kenya as an outsourcing destination.

5.5 Limitations of the Study

Because Airtel Kenya is a private company, its financial information was not available to the public. As such we were not able to determine whether indeed the implementation of strategic outsourcing at Airtel Kenya, resulted in improved overall performance of the Company.

The directors who were interviewed were also reluctant to divulge transactional information citing confidentiality. As a result the researcher could only obtain qualitative information. From the study, we cannot therefore determine the level of cost saving that the Company achieved or hoped to achieve because the transaction costs with various vendors was not provided and similarly the cost of supervising the outsource vendor were not available. Similarly the contract terms with the outsourcing vendors were also not available to the researcher as the interviewees cited confidentiality. As such the researcher could not establish the deficiencies in the contracts between the Company and the vendors or the shortcomings in the service level agreements.

5.6 Suggestions for Further Research

As this research has demonstrated, outsourcing is a global practice that is gaining ground in Kenya. Outsourcing is stated as one of the pillars of vision 2030. If firms locally and abroad chose Kenya as a destination for outsourcing of services there will be job creation in the local market. Conversely if local firms chose to outsource services to firms in other countries it will result in job losses at home. We therefore recommend that further research be carried out to establish, the extent to which outsourcing has taken root within the Kenyan economy and whether outsourcing as currently practiced in Kenya is beneficial to the Kenyan economy. What is the impact of outsourcing on local labour market? What is the contribution of outsourcing to foreign exchange and tax?

Outsourcing can bring great gains for the country if appropriate policies and laws are offered by government. Such a study would benefit Government in the development of policies that encourage firms to outsource to Kenyan firms.

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APPENDIX

INTERVIEW GUIDE

Section A: Background Information

1. In what department are you working at Airtel Kenya?
   Networks? , IT ? Customer Care ? Human Resources ? Supply Chain ?, Other (please specify)
2. What position do you hold in Airtel Kenya?
3. What is your Professional Training?
4. Was the entire function outsourced or just part?
5. What services in your function have been outsourced?
6. How many staff did the function have before and after the implementation of outsourcing?

Section B: Factors influencing the Decision to Outsource at Airtel Kenya

Macro environment

7. Do you think that either the political, social, economic or technological environment conditions prevailing in the industry may have contributed to the decision to outsource? Please explain.
8. Which of these factors do you think had the greatest influence on the decision to outsource?

Suppliers/ Vendors

9. Please identify the vendor/s to which the service has been outsourced.
10. Were these the same vendors that provided services to the Company prior to the decision to outsource?
11. Do you consider these suppliers to be large and powerful suppliers or small and non influential suppliers in the industry?

12. Do these vendors offer similar services to other Companies or is Airtel Kenya the sole client?
13. Could Airtel have easily switched from the services of these vendors to the services of another vendor?
14. Did the outsourcing decision involve switching of vendors?
15. What expenses were involved in the switching of vendors if at all?
16. Is the outsource vendor a local or international firm?
17. To how many vendors were the services outsourced?

Competition

18. Do you think that level of competition in the sector contributed to the decision of the Company to outsource your function? Please explain
19. Please identify Competitors who offer similar services to those offered by Airtel Kenya.
20. Do you consider the level of competition in the sector to be moderate or intense?

Substitutes

21. What other products do you consider to be substitutes to the products offered by Airtel?
22. Who are the providers of those services?
23. In your view are these substitutes good substitutes or poor substitutes?
24. Do you think that the availability of substitutes in the market contributed to the decision to outsource?

Customers

25. Do you consider the customers of Airtel Kenya to be price sensitive?
26. Do Airtel's customers have strong bargaining power? Do you know of an instance when they have wielded their bargaining power?
27. Do you think that the decision to outsource was influenced by customers pushing for superior and differentiated services?

28. Do you think that the decision to outsource was influenced by customers wanting cheaper products and services?

Costs/ Efficiency

29. Do you know what is the cost of rendering the service in-house? Please provide.
30. Do you know what is the cost of outsourcing the service? Please provide.
31. How do these costs compare?
32. Is the product/ service offered by the outsource vendor superior or inferior to the provision of the service in-house?
33. How would you rank the factors set out below with regard to their influence on the decision to outsource in your specific function?
    i. The desire to focus on core business?
    ii. The desire for cost savings?
    iii. The desire for greater cost control?
    iv. The desire to offer cheaper products to customers?
    v. The need to mitigate technological risks?
    vi. The need for greater efficiency?
    vii. The need to control or manage powerful suppliers?
    viii. The need to offer superior/differentiated products?
    ix. Access to resources that the Company did not have prior to the decision to outsource?

Section C: Identification of steps taken in implementing the decision to outsource

34. Did Airtel Kenya engage in any formal process of evaluating the in house capabilities prior to reaching the decision to outsource your function?
35. What method of evaluation of in house capabilities was used?
    i. Value Chain
    ii. Systematic internal annalysis

36. Did Airtel Kenya engage in any formal process of evaluating the capabilities of the outsourcing vendor prior to reaching the decision to outsource your function?
37. What method was used in evaluating the outsourcing vendors' capabilities?
38. How was the outsource vendor ranked in the process?
39. Were you consulted before the decision to outsource was reached?
40. Were managers below you consulted before the decision to outsource was reached?
41. How was the decision to outsource your function communicated?
    i. To staff on your team?
    ii. To staff who were to be transferred to the outsource partner.
    iii. Please specify if any other method was used.
42. Did the implementation of the decision to outsource your function result in redundancy?
43. Did the decision to outsource affect the level of staff engagement of those who remained?

Section E: Outsourcing Outcomes

44. Do you consider that the outsourcing of your function has achieved any benefit(s) for the Company? Please specify?
    i. Do you think there is increased business focus on the core activities of the business?
    ii. Has there been cost saving in your functions activities following the implementation of outsourcing?
    iii. Has there been increased cost control within your function following the implementation of outsourcing?
    iv. Has the Company managed to control the exercise of vendor power over the business?
    v. Is the service now rendered by the outsourcing vendor more superior to that that was rendered in house prior to outsourcing?
    vi. Does your function now have access to resources/capabilities that it did not have prior to the outsourcing decision? Please specify the resources/ capabilities?

vii. Do you think that the risks mentioned above have now been mitigated or eliminated?

45. Of the benefits your have mentioned which benefit do you consider to have the greatest significance or impact on the business?

46. Do you think that by outsourcing your function has effectively managed the risk of obsolescence?

47. What challenges did you or the business face in implementing the outsourcing decisions

48. Is there any other outcome that you believe has had a significant impact on the business of Airtel Kenya' arising from its decision to outsource your function? Please specify.

Thanks for your response and cooperation.