THE EFFECT OF BUSINESS PROCESS OUTSOURCING ON THE PERFORMANCE OF TELECOMMUNICATION FIRMS IN KENYA

BY

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DECLARATION

I declare that this project is my original work and has never been submitted for award of a degree in any other University or Institution of Higher Learning for examination/academic purposes.

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This research Project has been submitted for examination with my approval as the University supervisor

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DEDICATION

I would like to dedicate this work to my late father Mr. David Alwang'a. The man who always told me to dream big and work smart to bring my dream to fruition. To my dear husband, Kenneth Katieche for support and patience during this time. To my son and daughter Darrel and Tashai who missed quality time with their mum as I took time to study. To my mother Elizabeth Andayi for her encouragement and best wishes. Thank you so much and may God continue to guide and protect you.

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To my family that gave me all the required support am greatly indebted to my dear husband Kenneth who always supported and encouraged me through trying times when giving up was an easy option. My son and daughter Darrel and Tashai who were a source of motivation.

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ABSTRACT

The study sought to establish the effect of business process outsourcing on the performance of telecommunication firms in Kenya. The objective of the study was to determine effect of business process outsourcing on the performance of telecommunication firms in Kenya with a focus of telecommunication in this study as the telephonic communication of audio, video, or digital information over a distance by means of radio waves, optical signals, etc, or along a transmission line. The research adopted a descriptive survey. The research targeted the three mobile telecommunication firms in Kenya ie safaricom, Airtel and Orange. Primary and secondary data was used. Secondary data was collected from financial statements of the telecommunication firms while Primary data was collected using a semi structured questionnaire. The questionnaire was administered through the drop and pick later procedure and the respondents were senior managers and managers in various departments that are involved in outsourcing. The response rate was 70%.Data was analysed using both descriptive and inferential statistic consisting of frequency distribution tables and percentages, measures of central tendency such as mean and measures of dispersion such as standard deviation and regression analysis. The study established that most respondents were men. Most of the respondents were managers between reproductive ages of 31-45 years and had post secondary education.

The study established that several business Processes were outsourced in the three mobile telecommunication firms and that all the four business process outsourcing strategies are practiced in the three firms. It was also established that BPO has several challenges with the greatest challenge being Loss of control above the corporate business processes and Vendor reputational risk. The study recommends that telecommunication companies look into their outsourced services and re-evaluate the value add to productivity with a view of promoting its contribution to productivity. This is based on the fact that whereas outsourcing had effect on productivity, the effect was not significant. The study was limited to three mobile telecommunication firms hence the study may not be representative of the other telecommunication firms. The study recommends that in future a similar study be conducted in other organisations and economic sectors where outsourcing has been carried out so as to find out if the same results would be obtained.

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LIST OF ABBREVIATIONS

BPO	Business Processing Outsourcing
CAK	Communication Authority of Kenya
GDP	Gross Domestic Product
GSM	Global Service for Mobile Communications
KPO	Knowledge Process Outsourcing
HR	Human resource
HRM	Human resource management
IBM	International Business Machines
ICT	Information and Communications Technology
IAOP	International Association of Outsourcing Professionals
IT	Information Technology
ICT	Information Communication Technology
ITES	Information Technology Enabled Services
ITO	Information Technology Outsourcing
PPI	Progressive Policy Initiative
RBT	Resource-Based Theory
R&D	Research and Development
RPO	Recruitment Process Outsourcing
SIM	Subscriber Identification Module
SPSS	Statistical Package for Social Science
TCT	Transaction Cost Theory
WB	World Bank

CHAPTER ONE: INTRODUCTION

1.1 Background of Study

In today's global economy, organizations are faced with a variety of changes in the business environment, (Edwards, et al 2000; Tracy and Tan, 2001; Lockamy and McCormack 2004).The dynamics of the present day competitive environment also place increasing pressure on organizations to reinvent themselves almost continuously (McAdam and Mccormack 2001), adopt the supply chain management philosophy (Tracy and Tan 2001), develop long-term strategic partnerships with innovative suppliers and collaborate with them in non-core process outsourcing in order to maintain or improve overall organizational performance and generate sustainable competitive advantage.

Outsourcing is a tool for cutting costs and improving organizational focus. Increasingly it is a means of acquiring new capabilities and bringing about fundamental strategic and structural change (Linder 2004).According to Casale (2000), outsourcing has become a standard practice across all industries. Further it has evolved from being a controversial practice to a mandatory business strategy for companies to compete successfully in today's fast paced e-commerce enabled market environment, (Casale 2000). Casale asserts that outsourcing is no longer a tool for only cost control but rather has become a strategic tool for innovation, global expansion and a source of competitive advantage. According to Linder and Sawyer (2003), Business Process Outsourcing is quickly emerging as a key enabler of all high performing organisations. More and more business and governmental leaders across industries are turning to BPO to help them elevate their organizational performance.

Organisational performance is the ability of an organization to fulfill its mission through sound management, strong governance and persistent rededication to achieving results. Organizations today grapple with revolutionary trends, accelerating product and technological change, international competition, demographic changes and a shift towards a service society. These trends have increased dramatically the degree of competition in virtually all industries. Companies in such an environment become competitive high performers or they vanish (Dessler, 2000). Performance measurement systems provide the foundation to develop strategic plans, assess an organizations completion of objectives and remunerate managers (Ittner & Larcker 1998).

The telecommunications industry covers a number of areas including cabling, wireless, switching, transmission, RF and optical communications, media and IP networks**.** Telecommunication in this study is the telephonic communication of audio, video, or digital information over a distance by means of radio waves, optical signals, etc, or along a transmission line. Private sector is the part of a country's economic system that is run by individuals and companies, rather than the government. The segment of the economy under control of the government is known as the public sector.

1.1.1 Business Process Outsourcing

According to Rundguist (2006), outsourcing is defined as the procurement of products and services from sources that are external to the organization. Hence outsourcing is a phenomenon in which a company delegates part of its in-house operations to a third party gaining full control over that operation or process (Ono & Stango, 2005). Outsourcing is linked to strategy as it provides a firm with increased flexibility in its resource management and may also reduce response time to major environmental changes. According to Robert Handfield (2006) outsourcing can be defined as the ‘’strategic use of outside resources to perform activities traditionally handled by internal staff and resources’’. Kotler (2003) defines outsourcing as a business strategy where a company hires independent experts outside the company to do some of its non core company work.

Outsourcing is generally broken down into two distinct areas; Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) (Moses Kerniba 2009). Business Process Outsourcing (BPO) is a broad term referring to outsourcing in all fields of economic activity. It can be defined as an organization entering into a contract with another organization to operate and manage one or more of its business processes or sub-processes (Sharma, 2004).Examples of BPO services include information technology systems management, multimedia and animation, bookkeeping and financial services, business consulting, computer assisted design, call centers, data entry, desktop publishing, typesetting, handwriting services, human resources services, internet marketing, legal services, medical billing, proofreading, editing, software & technology, transcription, web design and web development, writing and translation. Knowledge Process Outsourcing on the other hand is outsourcing in which knowledge-related and information related work is carried out by workers in a different company or by a subsidiary of the same organization. Examples of KPO services include knowledge processing services, intellectual property research, animation and simulation services, data research and analytics, litigation services, medical content and services, pharmaceuticals services, writing/content development services and database development services.

A BPO service provider differentiates itself from a typical third party Application Service Provider (ASP) by either putting in new technology or applying existing technology in a new way to improve a business process. Business Process Outsourcing (BPO) has become an important ingredient of organizational restructuring and business enhancement initiatives (Saxena & Bharadwaj, 2009; Handley & Benton Jr., 2009; Gewald H, 2010). Companies are searching beyond regular boundaries of the firm to obtain performance improvements. Through BPO a company is able to focus on its core competencies without being burdened by the demands of bureaucratic restraints (Kakabadse 2002).BPO has become a corporate strategy for firms that hand over all or part of a business process to an external provider for reasons of cost effectiveness and increased efficiency. .Strategic outsourcing is the organizational arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firms value chain &Holcomb and Hitt 2007.

According to Power, Desouza and Bonifazi (2006),the reasons for outsourcing are, Cost savings; Focus on core business; Access to resources and knowledge; Growth in global knowledge; Increased sophistication of Information Technology and Global diffusion of knowledge. Not to forget cost reduction in telecommunications, higher level of computerization and informatisation, higher level of education, mobile technology, e-mail, video conferencing, web conferencing, instant messaging and other collaborative tools. Similarly Brown and Wilson European Scientific Journal February 2015 edition vol.11, No.4 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431 (2005) list ten arguments for outsourcing: Accelerate re-engineering benefits; Gain access to world-class capabilities; Earn cash back; Release resources for other purposes; Reevaluate problematic functions; improve company focus; make capital funds available; Lower operating costs; Minimize risk; and Gain access to resources not available internally. Dyer, Kale and Singh (2001) define four advantages of strategic partnerships: improving knowledge management; increasing external visibility; providing internal coordination; and facilitating intervention and accountability.

Sink and Langley (1997) reports that among contemporary business trends today was a movement by many firms to revise their priorities and focus their resources on a limited number of selected activities and processes. The result was a growing inclination by firms to outsource selected processes including logistics activities. They group the firm performance metrics into six categories: cost efficiency, productivity, profitability, growth, cash management and market ratios. The purpose of these metrics is to provide a comprehensive view of the financial characteristics of the firm at the time of outsourcing.

A study by (Jiang, Frazier & Prater 2006) observes that outsourcing arrangements that transfer outsourcing firms' assets to a vendor can convert fixed costs and operating expenses to variable usage charges. On the application side, outsourcing can reduce the commitment to fixed-cost, full-time human resource expenses and other overhead costs through contracts that provide development skills on an as-needed basis.

Jiang et al. (2006) found insufficient evidence to conclude that outsourcing firms obtain significant productivity growth over the four-quarter period. Several studies seek to explain the relationship between productivity growth and outsourcing. Abraham and Taylor (1996) find that firms “contract out” services with the objectives of smoothing production cycles and benefiting from specialisation. Ten Raa and Wolff (2001) found a positive association between the rate of outsourcing and productivity growth.

Traditionally, when business is booming, the temptation is to hire more staff, expand facilities, and bring more of the business “in-house,” where firms hope to better control costs. However, today's knowledge-based and service-based economies offer innumerable opportunities for well-run companies to increase profits through outsourcing (Quinn, 1999). When used properly, outsourcing can boost profitability.

1.1.2 Organizational Performance

Organizational performance is defined as the analysis of a company's performance as compared to goals and objectives (Jamroy 2002). Performance is the outcome of all of the organizations operations and strategies (Wheelen & Hunger, 2002).Organizational performance is an indicator which measures how well an enterprise achieves their objectives (Venkatraman and Ramanujam, 1986). Organizational performance can be assessed by an organization's efficiency and effectiveness of goal achievement.

Within corporate organisations there are three primary outcomes analysed, financial performance, market performance and shareholders value performance (Adler,2005). The concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets including human, physical and capital resources for the purpose of achieving a shared purpose(Carton,2004) Organizational performance comprises the actual output or results of an organization as measured against its intended output.

Organization Performance can be classified into Financial Performance and Non Financial Performance Mahoney & Roberts, (2007). According to Richard, Divinney, Yip & Johnson (2009 organizational performance encompasses three specific areas of firm outcomes, financial performance such as profits, return on assets, return on investments, profit rate, return on equity and earnings per share, product market performance such as sales, market share, new product introduction, product quality, marketing effectiveness and shareholders return measure through total shareholder return and economic value added.

Company's performance is evaluated in three dimensions. First is company's productivity or processing inputs into outputs efficiently. The second is Profitability dimension or level of which company's earnings are bigger than its costs. The third dimension is market premium or level by which company's market value is exceeding its book value (Walker, 2001).

1.1.3 Telecommunication Firms in Kenya

The telecommunication sector in Kenya is well developed and key telecommunication players as listed in Appendix I include; Telkom Kenya (Orange, France Telecom), Safaricom (Vodafone), Bharti Airtel (formerly Zain, Celtel), Essar Telecommunication Kenya (Yu, formerly Econet). The two major players are Safaricom, the clear market leader in the mobile services segment and Telkom Kenya, the country's incumbent fixed-line provider and the major player in the fixed line telecommunication segment. Telkom Kenya is revamping its infrastructure and services under the Orange brand with fresh capital from its new majority shareholder, France Telecommunication and has also re-entered the mobile market, CAK (2009).

Safaricom was Kenya's first GSM operator and began offering services in 1997. Kencell, the predecessor of Celtel, was the first licensed mobile operator and became the second GSM operator in January 2000. The Communication sub-sector has remained vibrant buoyed by considerable growth in mobile telephony. Mobile telephony continued to grow albeit marginally with subscriber base expanding slightly from 29.7 million in June 2012 to 30.5 million in June 2014 (See Appendix 1). This growth was attributed to the increased mobile cellular telephony penetration, increased mobile money transfer agents and increased value added services such as m-banking, m-insurance among others. The Internet sub-segment continued to grow with 12.43 million internet subscriptions recorded and 19.65 million estimated internet users, representing Internet penetration of 48.3 per cent compared to 35.5 per cent in the previous year. The increase was mainly driven by growth in mobile data/internet subscriptions,(CAK Annual Report, 2013).

Omae, Ndungu and Kibet (2013) postulate that there are several challenges facing the telecommunication sector in the world all over. These challenges range from environmental issues, competitive issues, security to regulatory challenges. Environmental challenges are issues facing the business organization from within and without that threaten the ability of the organization to compete successfully in the market. Therefore, in today's highly turbulent business environment, it is important for the organization to engage in continuous scanning of environment in order to promptly identify the issues facing the organization and undertake timely responses. Competitive challenges can be classified under the micro-environmental (industry) external factors. The forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. The original competitive forces model identified five forces which would impact on an organization’s behaviour in a competitive market (Michael Porter, 2004).These include: The rivalry between existing firms in the market, the power exerted by the customers in the market, the impact of the suppliers on the sellers, the potential threat of new firms entering the market and the threat of substitute products becoming available in the market. Security challenges range from physical security, network security, information security among others.

1.2 Research Problem

In spite of the benefits and increased performance brought about by the outsourcing of services, majority of businesses continue to use the conventional ways of providing services, when outsourcing of such services clearly indicates that the operational cost reduction and efficiency in delivery will be achieved. Out sourcing has emerged as a major strategy for organizations to remain competitive in the ever challenging economic global environment and many organizations have adopted it with much success. Many studies have been carried out on various aspects of outsourcing. For example, Yan Kelovil (2003) indicated that (two thirds) of companies worldwide already outsource at least one business process to a third party. He notes that outsourcing is now a fact of life in most industries around the world. However, outsourcing is also fraught with various problems if not properly thought of and managed. According to Lysons and Farriangton (2006) outsourcing among other problems reduces a company’s control over how certain services are delivered which in turn raises the company’s liability.

Gakii (2010) carried out a study on challenges of implementing outsourcing in East Africa breweries. She found out that the organization needed to develop clear criteria on the choice of service providers. Boya (2010) carried out research on the implementation of the outsourcing strategy in cement manufacturing industry in Kenya. He established that the strategy had assisted in lowering the operation costs of the companies. Bosire (2010) carried out a survey on impact of outsourcing on lead time and customer service. This survey involved supermarkets in Kenya .The study found a positive correlation between outsourcing and lead time but cited mistakes in implementing the strategy.

Kirui (2001) in his study of competitive advantage through outsourcing of non-core logistics activities within the supply chain of British American Tobacco (BAT) Kenya concluded that outsourcing of non-core logistics activities is triggered by the need to eliminate duplication of roles, efforts, and the dysfunction existing within the organization, Kinyua (2000) concluded that companies need to conduct careful analysis before engaging in outsourcing to minimise risks. In addition, Bosire, Nyaoga and Ombati, (2013) who did a research on impact of outsourcing to lead time and customer service in the supermarket industry concluded that the supermarket outsource most of their activities. They also found that there is a positive correlation between outsourcing and lead time but established in their study that supermarkets commit mistakes while outsourcing. Chanzu (2002) on the other hand, concluded that outsourcing is most prevalent in departments like human resource, finance and information technology.

There has been no major study on effects of business process outsourcing on cost efficiency, productivity and profitability of the telecommunication sector in Kenya.
There is therefore a need to carry out an empherical study of the effects of outsourcing these activities on the firm’s performance. This would enhance wide implementation of the outsourcing strategy.

The general research questions for this study are:-What are the business process outsourcing strategies used by private telecommunication firms in Kenya, what are the challenges facing the implementation of business process outsourcing in private telecommunication firms in Kenya, what is the effect of business process outsourcing on the performance of private telecommunication firms in Kenya

1.3 Research Objectives

The main objective of this study is to identify the effect of business process outsourcing on the performance of mobile telecommunication firms in Kenya, while the specific objectives are:

i) To determine the business processes outsourced and outsourcing strategies used by telecommunication firms in Kenya

ii) To determine the challenges facing the implementation of business process outsourcing in the telecommunication firms in Kenya

iii) To establish the relationship between business process outsourcing and performance of telecommunication firms in Kenya

1.4 Value of the study

This study explores and validates the existing literature to find out the effects of business process outsourcing on the performance of private telecommunication firms in Kenya. The findings of this study will be useful to telecommunication organizations. This will provide useful information that will help the management in addressing the challenges facing the industry in performance and device strategies to ensure the organizations remain competitive

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It will also be of great significance to the other organizations as a whole as its findings would appraise challenge faced and link the same to corporate performance. The study will offer an opportunity for review of strategies adopted with aim of improving organizational performance as it will unearth how outsourcing has been effective leading to effective performance.

To the academicians the study will contribute to the existing literature in the field of outsourcing practices Vis a Vis performance of firms. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya. To policy makers the study will enable them obtain knowledge of telecommunication industry dynamics and the appropriate strategies to be applied to enhance performance and therefore obtain guidance from this study in designing appropriate policies that will regulate the industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature relevant to the subject under study. It summarizes the information from other researchers` who have carried out their research in the same field of study. The specific areas covered here are the theoretical and empirical review of the existing literature and the conceptual framework. It identifies the relationship business process outsourcing and organizational performance.

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2.2 Theories of Business Process Outsourcing

Business Process Outsourcing may be a source of enhanced firm competitiveness since competitive advantage is embedded in a set of relationships across the boundaries of firms rather than residing inside an individual firm (Bharadwaj and Saxena, 2009). This argument not-withstanding, uncertainty and divergent views loom over BPO's impact on firm performance. Various authors identified significant number of theories that could explain the outsourcing phenomenon (Gotttschalk and Solli-Sæther, 2005; McIvor, 2005). These theories include; Agency theory which suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. The primary agency relationships in business are those between stockholders and managers and between debt holders and stockholders.

These relationships are not necessarily harmonious; The theory attempts to deal with two specific problems: first, that the goals of the principal and agent are not in conflict (agency problem), and second, that the principal and agent reconcile different tolerances for risk. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (for example offering management performance bonuses to encourage managers to act in the shareholders' interests). The agency theory is likely to predict the outcomes of outsourcing. The second theory is the Core Competency theory: The application of concept of core competences in outsourcing became very popular among scholars. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina and Ross, 2003; Feeney et al., 2005). Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. The third theory is the Transaction Cost Theory: Transaction cost economics (TCE) has been the most utilised theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. This helps in making effective decisions in regard to outsourcing.

Lastly Resource-Based Theory: The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. This theory rests on two keys points. First, that resources are the determinants of organization performance and second, that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs, a competitive advantage has been created (Priem and Butler, 2001).

2.3 Empirical Review

There is a large body of empirical literature that addresses the interrelations between outsourcing and firm characteristics or firm performance before the outsourcing takes place to evaluate the rationale for outsourcing decisions. Support for BPO's positive impact on firm performance is anchored on the argument that, one of the main reasons for outsourcing is to enable firms heighten their strategic focus hence concentrate full energies and resources on value chain activities that are at the core of their strategies and for which they can create unique values (Thompson, 2007). Also in support of BPO's positive impact, Gilley and Rasheed (2000) argues that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing narrowly on things they do best.

Fritsch and Wüllenweber (2007), analyzing determinants of business process outsourcing in the German banking market, draw a different conclusion based on their findings. They were able to show that while BPO is still an element of cost cutting strategies it is also pursued by well-performing banks with a high revenue diversification. Thus they conclude that BPO is used as a strategic element in market differentiation strategies to gain further competitive advantage.

Görzig and Stephan (2002) analyzed the impact of outsourcing on the firm level performance of German manufacturing firms in the period between 1992 and 2000 using a large dataset of 43,000 firm-year observations. They used three proxies to capture the degree of outsourcing of the firms: material inputs over labour cost, representing the "make or buy"-type of outsourcing, external contract work over labour costs as proxy for the outsourcing of production functions, and external services over labour costs. They showed that all three types of outsourcing lead to better performance in terms of return per employee. On the other hand, only increased material input has a positive influence on overall firm performance measured as return over sales while services outsourcing has a negative effect.

In his contribution, Thompson Jr. (2007) concerned over BPO benefits points out that, the manner in which BPO decisions are generated, structured and implemented play a major role in determining its impact on firm performance and that not all outsourcing initiatives are strategically calculated hence weak evidence on BPO's positive impact on firm performance.

Several studies evidenced a positive link between firm's performance and outsourcing (Pounder et al., 2011; Bolat & Yilmaz, 2009; Cho et al., 2008; Sallimat et al., 2008; Wang et al., 2008; Jiang et al., 2006; Gilley et al., 2004). Jumah & Wood (2000) studied outsourcing linkage to performance of the firm in accounting perspective and found significant positive linkage between them. They argued that outsourcing cannot only provide a benefit in short term, but it can be beneficial in long term also. Gilley et al. (2004) studied the human-resource aspect of outsourcing and found significant implication of HR activities such as payroll and training. Results of their studies indicated that HR outsourcing shows the positive impact of performance of firm and all HR outsourcing activities lead to organizational effectiveness in general.

Cho et al. (2008) studied logistical outsourcing and found this capability to be positively related to the performance of the firm in the e-commerce market. This was because of logistic outsourcing may not be of such importance in e-commerce market, but it might be significant in other markets and firms. They supported their results by argument that firms in e-commerce industry spread wide amount of resources on their websites, but they are unable to reach their customers in time, so as a result of this study it was suggested that they could increase their logistic capabilities in spite of outsourcing them as shown in table 2.1.

<u>Summary of empirical studies:</u>

Table 2.1: Research Examining Effects of Outsourcing on Organizational Performance

Study	**Examining effects of outsourcing on Organizational Performance**
Fritsch and Wullenweber (2007),	-Analyzed determinants of business process outsourcing in the German banking market. - Concluded that BPO is used as a strategic element in market differentiation strategies to gain further competitive advantage.
Gorzig and Stephan (2002)	- Analyzed the impact of outsourcing on the firm level performance of German manufacturing firms. - Concluded that outsourcing lead to better performance in terms of return per employee.
Thompson Jr. (2007)	- Concerned over BPO benefits. - The manner in which BPO decisions are generated, structured and implemented play a major role in determining its impact on firm performance.
Jumah & Wood (2000)	- Studied outsourcing linkage to performance of the firm in accounting perspective.

	- They argued that outsourcing cannot only provide a benefit in short term, but it can be beneficial in long term also.
Gilley et al. (2004)	- Studied the human-resource aspect of outsourcing. - Results of their studies indicated that HR outsourcing shows the positive impact of performance of firm and all HR outsourcing activities lead to organizational effectiveness in general.
Cho et al. (2008)	- Studied logistical outsourcing and found this capability to be positively related to the performance of the firm in the e-commerce market.
Kirui (2001)	- Focused on how competitive advantage through outsourcing of non-core logistics activities within the supply chain could be beneficial.
Njeri (2011)	- Conducted a study on factors that influence business process outsourcing services. - Argued that the factors that influence business process outsourcing services are mainly technology and infrastructure.
Kinyua (2001)	- Conducted a study on outsourcing of selected financial activities by large firms. - He argues that for a company to be successful it should have a portfolio of competencies rather than a focus on profits.
Gilley and Rasheed (2000)	- Examined the extent to which outsourcing of both peripheral and near-core tasks influences firms' financial and nonfinancial performance on a sample of 94 manufacturing firms in the U.S. - They did not find any significant direct effect of outsourcing on firm performance. However, an indirect effect on performance was found when using strategy (cost leadership vs. differentiation) and environmental dynamism as a moderator.

Source: Project Literature Review

2.4 Challenges of Implementing Outsourcing Strategies

Although there are a good number of reasons to outsource, a number of potential obstacles are also realized. According to Beaumont and Sohal (2004), outsourcing does not reduce costs as expected in some cases. Failure to realize hidden costs of contract, results in increase operating cost. The pre and post –outsourcing costs are usually experienced in the areas of administration, operation and office expenses. After over a decade of economic boom times, the recent global economic turndown has significantly accelerated and intensified market competition pressures, causing many corporations to seek innovative ways to deal with the changed economic landscape. In the process, an increasing number of organizations worldwide have turned to BPO, which has significantly lower overhead costs without sacrificing quality and productivity levels. Today, BPO is considered not only as a simple cost-cutting mechanism but also a strategic initiative, which is expected to shape and prepare the organization for future business dynamics. Difficulty in obtaining organizational support and indecisiveness on which activities to outsource.

2.5 Summary of Literature and Research Gap

From the review of literature above, outsourcing literature rested essentially on the need to initiate new processes, outsource necessary aspect of business processes and franchise when necessary to sustain growth and make more profit for the organization in focus and satisfying the consumers through quality product offerings. It also aimed at promoting organizational effectiveness and efficiency. The conclusion generally is that outsourcing usually impacts positively on the performance of the organizations. The reviewed literature shows that this conclusion is valid in several sectors and countries. The application of outsourcing in a company business process in developing countries to increase profitability has not received similar attention as it is in developed countries.

This study intends to bring together two streams of research: organisational performance and business process outsourcing. More importantly, is to identify the importance and extent of moderating variables of outsourcing as its affects the organizational performance in relation to cost reduction, productivity and profitability.

2.6. Conceptual Framework

A conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea or thought (Mugenda and Mugenda, 2003). The conceptual framework outlined below shows the relationship between outsourcing strategies and organizational. A general conceptualization diagram as shown illustrates that organizational performance is a dependent variable and outsourcing strategies are the independent variables while the government policy has a moderating effect on the outsourcing strategies and organizational performance.

2.6.1 Selective Outsourcing

Selective Outsourcing, also referred to as Selective BPO, is a sourcing strategy in which a training supplier is chosen to manage a select group of training processes related to administration, content, delivery or technology services. In Selective Outsourcing, the managed training processes can fall within one or more functional areas of training (Parsa, 2009). Selective outsourcing involves outsourcing only part of an activity and performing the rest of the activity in-house. Selective outsourcing is generally more successful than total outsourcing since companies that outsource an entire activity tend to be constrained in their ability to control the supplier, secondly when companies perform a part of the activity in-house, they have access to the operational knowledge and information required to design effective reporting systems. Hence, it is far more difficult for the supplier to behave opportunistically (Lankford & Parsa, 2009).

This widely recommended selective approach capitalizes on the strengths of both the client and the vendors (Chakrabarty, 2006b).According to IBM Research (2010), there is a strong correlation between the selective outsourcing strategy and the firm’s financial performance.

2.6.2 Contracting

The success rate of these outsourcing strategies requires careful consideration of the elements of a good outsourcing contract which can help avoid many of the significant risk factors (Harward, 2013). In BPO the approach is win-win, meaning that the aim is that both parties would be having benefit. Also the BPO relationship is usually viewed as long term (Click & Duening 2004, 112-113).

2.6.3 Licensing Agreement

Licensing agreements can be an intangible but valuable asset in industries. These agreements are a large part of intellectual property law, particularly in terms of enforcement of copyrights, trademarks and patents (Biggso & Aubuchon 2012). Licensing outsourcing are general purchase orders that have defined terms and a unit price.

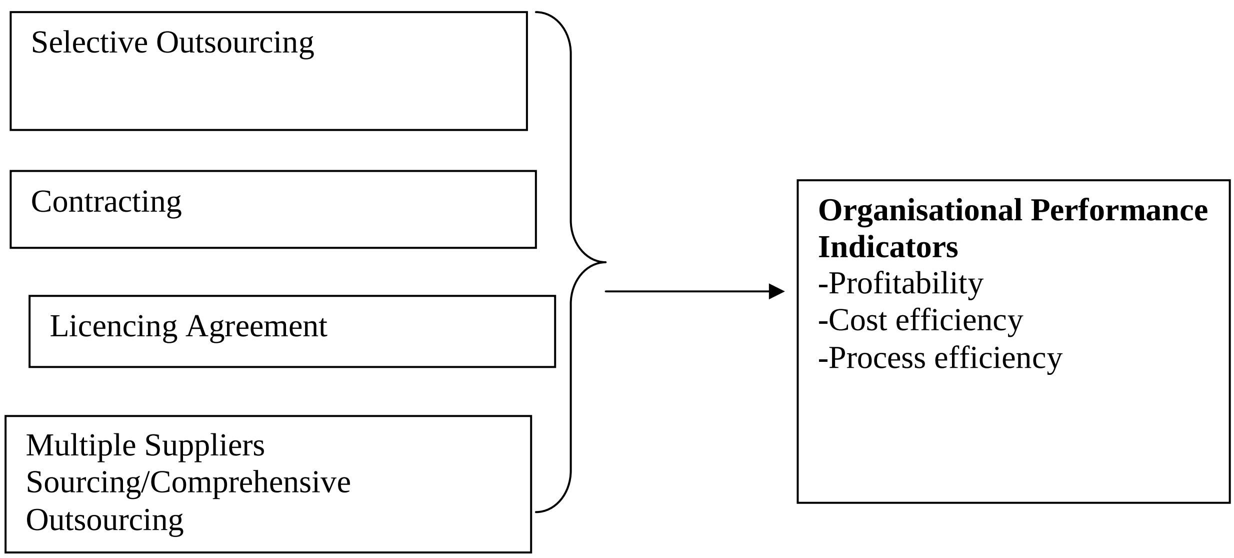
2.6.4 Multiple Supplier Sourcing / Comprehensive Business Process Outsourcing

Comprehensive Business process outsourcing (BPO) entails using third parties to deliver back-office support services such as finance, payroll (Worley, 2011). Comprehensive BPO involves developing a strategic long term relationship with a supplier or vendor for which both parties are working to commit dedicated resources in form of people and finance.

Fig 2.6: Conceptual Model depicting the effects of BPO on Organisational Performance

Independent Variables **Dependent Variable**

Outsourcing Strategies



Source: Adopted from Nyangau, Mburu & Ogolla (2014)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section focuses on methodology that will be used to design and analyze the data derived from the study. It includes research design, the target population, sampling and sample size, and data collection procedure and data analysis techniques.

3.2 Research Design

The research adopted a descriptive cross sectional survey design as well as correlation research because data was gathered from a large number of respondents. It is also cheaper and faster (Dallal 1998). Mugenda and Mugenda (2003) described descriptive survey as collecting data in order to test hypothesis or to answer questions concerning the current status of the subject of study. A descriptive study involves collection of data from all members of the population or a representative sample (Cooper & Schindler, 2006). It was also a correlation research because it was concerned with assessing the relationship among the different outsourcing strategies used by the telecommunication companies and the impact they have on their performance and survival.

3.3 Population of Study

The population of the study consisted of all the 525 senior managers and managers concerned with making outsourcing decisions in the three mobile telecommunication firms in Kenya as listed in Appendix 1.A list obtained from the human resource department of the three firms indicated that there are 440,40 and 45 managers respectively from safaricom, Airtel and orange making a total of 525.

3.4 Sample Design

Random sampling technique was applied to select the required sample size for the study. The following formula was used to determine the sample.

n=N/(1+Ne squared)

Where n=desired sample size for the study

N=total number of employees in the study area

e=desired margin error

Source (Israel, 1992)

A margin error of 0.075 was selected since its logistically difficult to deal with a larger sample size (Mugenda et al, 2003)

Thus n=525/(1+525*0.075 squared)

n=525/1+2.95

n=525/3.95

n=133

Table 3.1 shows the study population and the sample size

Table 3.1 Population and Sample

Company	**Managers and Senior Managers**	**Sample Distribution**
Safaricom	440	440/525*133=112
Airtel	40	40/525*133=10
Orange	45	45/525*133=11
Total	**525**	**133**

Source: Human Resource Department (safaricom, Airtel, Orange 2015)

3.5 Data Collection

Data for the study will be collected through primary sources. Primary data was collected using semi structured questionnaires distributed amongst the Senior managers and managers concerned with making outsourcing decisions. These managers include: senior manager facilities, manager internal services operations, Manager fleet, Principal officer Health and Safety, Senior manager learning and Development, Senior Manager Network Operations and Support, Manager Customer Experience and Quality, Senior manager Business Planning and workforce, Manager Business System Planning, Manager Security Operations, Senior manager marketing, Manager commercial Operations, Manager Enterprise Experience among others. The questionnaires were administered through drop and pick later method. Prior formal requests through courtesy calls and telephone calls were conducted to increase the acceptance to undertake the questionnaires. Questionnaires that were not be responded to were collected back to in order to assess the response rate. The Questionnaire was divided into four sections: section A to section D. Section A contained Biographic information, Section B contained questions concerning the different outsourcing strategies used by the private telecommunication firms in Kenya, Section C had question on the challenges facing the implementation of business process outsourcing in the mobile telecommunication firms in Kenya, finally section D sought to establish the relationship between business process outsourcing strategies and performance of mobile telecommunication firms in Kenya

3.6 Data Analysis

Before analysis data was checked for completeness and consistency. The data was then sorted and coded to enable responses to be grouped into various categories. Both descriptive and inferential statistics were used to analyse the data. These consisted of frequency distribution tables and percentages, measures of central tendency such as mean and measures of dispersion such as standard deviation. Inferential statistics in particular regression analysis was used to study the relationship between independent variable and dependent variables.

The following regression model was used.

$$Y=a_o+ a_1X_1+a_2X_2+a_3X_3 +a_4X_4 + €$$

Where:

$Y=$ Organizational Performance

$a_o =$ Constant

$X_1 =$ Selective outsourcing

$X_2 =$ Contracting

$X_3=$ Licencing agreement

$X_4 =$ Multiple Suppliers Sourcing/Comprehensive Outsourcing

€ = Error term

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, presentation and interpretation of the study findings. The general objective of the study was to determine effect of business process outsourcing on the performance of telecommunication firms in Kenya. Data was gathered using questionnaires and analyzed using both descriptive and inferential statistics.

4.2 Response Rate

A total of 133 questionnaires were issued out. The study achieved a response rate of 70% with 93 successful respondents. According to Mugenda and Mugenda (2003),a response rate of 50% is adequate for analysis and reporting. Babbie (2010) explains that a 50% response rate is adequate, 60% good and above, while 70% rated as excellent. The study therefore attained an excellent response rate as presented in table 4.1.

Table 4.1 Response Rate

Questionnaires	Frequency	Percentage%
Returned	93	70
Unreturned	40	30
Total	**133**	**100.0**

Source: Researcher, 2015

4.3 Demographic Information

This section analyses the findings related to demographic profiles of employees such as gender, age, education level, length of service, level of management and department employee is in.

4.3.1 Gender Distribution of the Respondents

The findings of the study revealed that out of the 93 sampled managers 58% were male while 42% were female as shown in Table 4.2. The gender distribution across the telecommunication companies from which respondents were drawn was satisfactory.

Table 4.2 Respondents Gender

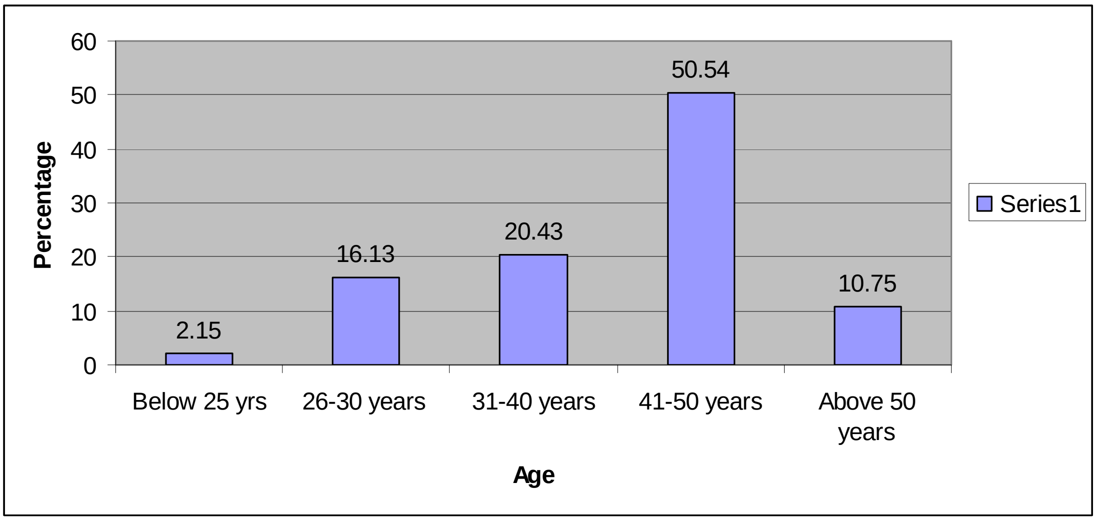
Gender	Frequency	Percentage%
Male	54	58
Female	39	42
Total	**93**	**100.0**

Source: Research Data, 2015

4.3.2 Age of Respondents

Respondents were asked to indicate their age. This would further help to show the diversity in the responses by age which is pertinent in establishing any possible trend. Figure 4.1 presents the findings

Figure 4.1 Age of Respondents



Source: Research Data, 2015

From Figure 4.1, the majority representing 50.54% of the respondents were between 41-50 years. Those between 31-40 years were 20.43% whereas 16.13 % were between 26-30years. 10.75% were above 50 years and only2.15 were below 25 years. A majority of the respondents 50.54 % fall within 41-50 years of age followed by 20.43%. Between 31-40 years. The study thus reached respondents across all age brackets further assuring a diverse background based on age hence a possible diversity in experiences/opinion. However this has no impact on significance of the study.

4.3.3 Highest Level of Education

The study sought establish the respondent's highest level of education. The results are represented in table 4.3.

Table 4.3 Education Level

Education Level	**Frequency**	**Percentage**
Diploma	8	8.6
Higher National Diploma	5	5.4
Fist Degree	52	55.9
Masters Degree	25	26.8
PHD	3	3.2
TOTAL	**93**	**100**

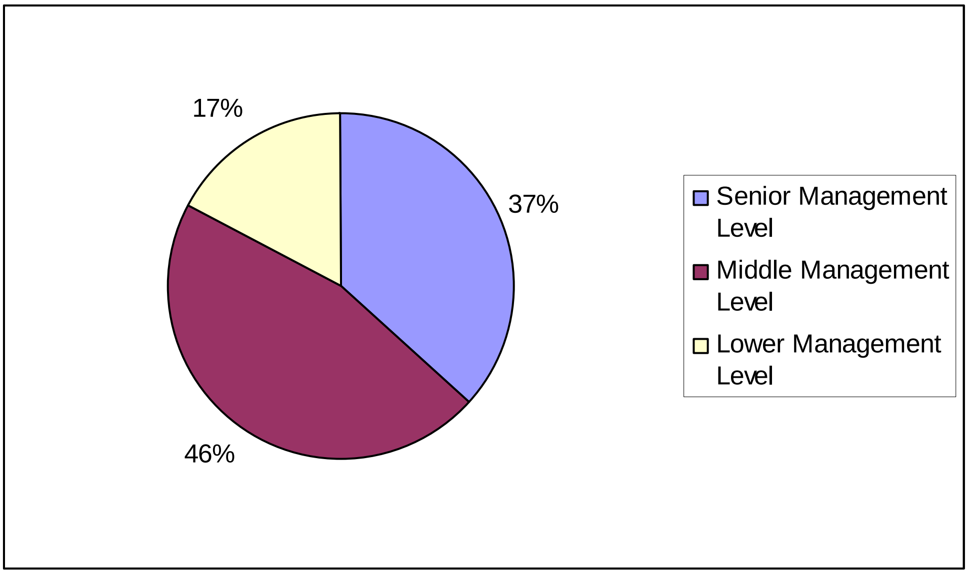
Source: Research Data, 2015

Findings revealed that majority of the respondents 55.9% were degree holders,26.8% had masters degrees,,8.6% had diplomas ,5.4% had Higher National Diplomas and 3.2 % hold PHD's. This implied that 100% of the employees in senior management have post secondary education training as shown in Table 4.3.Level of education and training achieved gives job holder confidence in performing tasks.

4.3.4 Response by Management Level

The study further found it necessary to establish the management level of the respondents. The results were as per figure 4.2.

Figure 4.2 Respondents Management Level



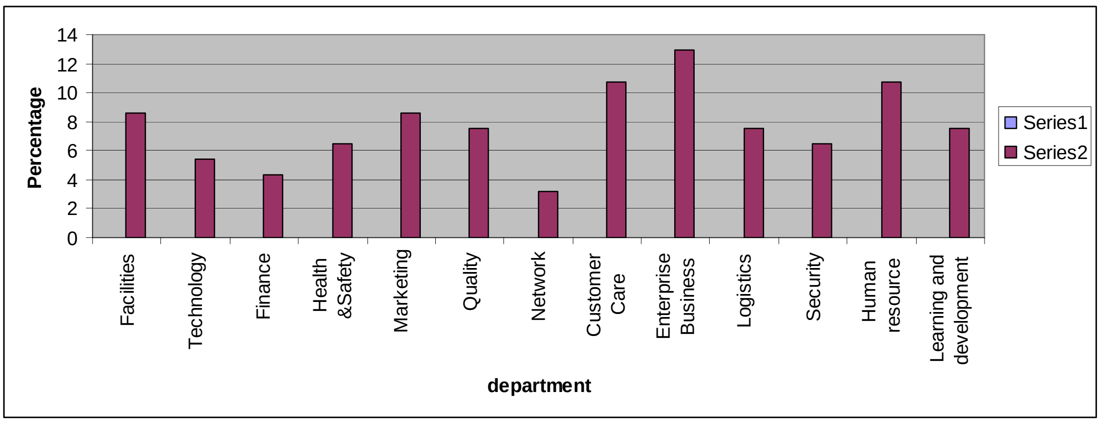
Source: Research Data, 2015

The findings revealed that majority of the respondents 46% belong to middle level management, 37% belong to senior level management and 17% represent the lower management. All levels of management were represented in the study.

4.3.5 Response by Department

The study further found it necessary to establish the different departments' respondents are in order to further ascertain diversity in perspectives. Fig 4.3 presents the findings.

Figure 4.3 Response By Departments



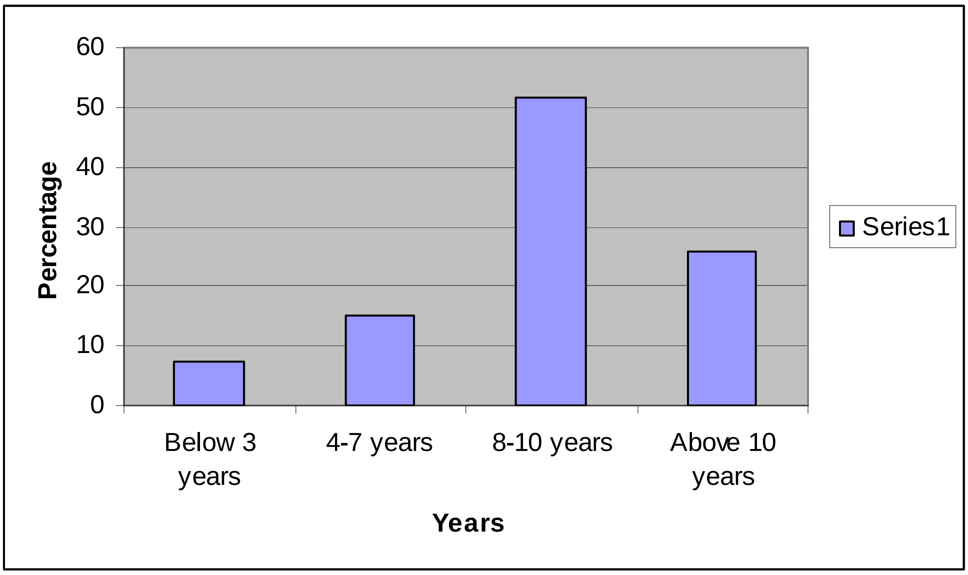
Source: Research Data, 2015

From the results shown in figure 4.3 12.90% of the respondent's were working in the Enterprise Business department 10.75% were working in the human resource department as well as customer care. 8.60% in facilities as well as marketing department, Logistics, learning and development and quality had each 7.53% while, security, health and safety had 6.45%. This implies that all departments that were targeted by the study were involved and findings are not biased hence representative of the various department views.

4.3.6 Response by Length of Service

To further show the diversity in the background experiences in the study area, respondents were asked to indicate the length of service within the organization. Results are presented in Figure 4.4.

Figure 4.4 Length of Service



Source: Research Data, 2015

The length of service among respondents is generally distributed. A majority51.61 % indicated having worked for 8-10 years. This was closely followed by25.81 % of the respondents having worked for more than 10 years. 15.05% of the respondents have worked 4-7 years and only 7.5% have stayed below 3 years.

4.4 Business Processes Outsourced and Outsourcing Strategies Used By Telecommunication Firms in Kenya

To achieve the first objective of the study which was to determine the business processes and outsourcing strategies used by telecommunication firms in Kenya, the Respondents were requested to indicate the business processes outsourced and the extent to which business processes outsourcing strategies are implemented in the Telecommunication firms in Kenya. The respondents were asked to simply tick Yes or No to indicate services outsourced and to pick the most appropriate response in a Linkert Scale type questionnaire to indicate the outsourcing strategy used. The scale range was 1 and 5 Where (Very Small Extent=1, Small Extend =2, Average =3, Large Extent=4 and Very Large Extent=5)

Below are the results of the findings.

4.4.1 Business processes outsourced

Table 4.4 Outsourced Services

Service	Frequency	%
Engineering/Network Services	57	61
Fleet services	79	84.9
Cleaning Services	80	86
System Development	65	69.9
Data Entry	25	26.9
Training Services	33	35.5
Marketing Services	47	50.5
Payroll services	23	24.7
Cash collection	55	59.
Customer Service	70	75
Security Services	90	96.8
Facilities Maintenance	52	55.9
Quality Survey	33	35.5
Health Services	88	94.6
Catering Services	85	91
Human Resources eg recruitment, benefit management	58	62.4
Mailing Services	86	92
Logistics Services eg Deliveries	79	84.9

The findings show that employees agree that services are outsourced in the organizations. Security services, mailing services and health services are highly outsourced with a percentage of 96.8%,92% and 94.6 % respectively. Atleast 61% of the network services are outsourced.69.9% of system development is outsourced.

Marketing services are outsourced with a percentage of 50.5%.Human resources processes are also outsourced with a 62.4 percentage.

4.4.2 Contracting as an outsourcing strategy

The respondents were requested to indicate the extent to which contracting being a business process outsourcing strategy was implemented by telecommunication firms in Kenya. Below are the results of the findings in table 4.5

Table 4.5 Contracting

	N	Mean	Std. Deviation
Competitive bidding process	93	4.5914	.59527
Valid N (list wise)	93		

Source: Research Data

From the above results in table 4.5, the respondents indicated that competitive bidding process was implemented to a very large extent by most Telecommunication firms in Kenya. The mean score was 4.5914 which tends towards 5(Very Large Extent) while the standard deviation was .59527. This is an indication that most Telecommunication firms who outsourced business processes from which the respondents were drawn underwent through a competitive bidding process whenever they contracted for these services. According to Schniederjans et al. (2005), contracting out typically involves a competitive bidding process in which requests for proposals are disseminated to eligible vendors.

4.4.3 Selective Outsourcing as an outsourcing strategy

Table 4.6 Selective Outsourcing

	N	Mean	Std. Deviation
The organization out sources only part of an activity and performance the rest of the activity in-house	93	3.5699	.49777
Some services are offered by volunteers at no cost on behalf of the organization/ volunteers	93	3.4156	.50742
Valid N (listwise)	93		

Source: Research Data,2015

There respondents also indicated that Selective outsourcing was also being practiced to some large extent as it had a mean of 3.5 which tended toward 4 (Large Extent) and a standard deviation of .4977. This indicates that selective outsourcing is being used in some of the business processes in the firms who outsource only part of an activity and perform the rest of the activity in-house.

4.4.4 Multiple Suppliers Sourcing as an outsourcing strategy

Table 4.7 Multiple Supplier Sourcing

	N	Mean	Std. Deviation
Our organization has relinquished the responsibility for Providing services or operating a program/ load shedding	93	3.4624	.54292
Our organization has strategic long term relationships with suppliers or vendors to perform some of the operations	93	3.1252	.60232
Valid N (listwise)	93		

Researcher (2015)

The researchers agreed that Multiple supplier strategy is being implemented to an average extent by the three telecommunication firms as indicated by a mean of 3.46 which is less than 4 and a deviation of .5429.Respondents agree that the firms licence private providers to provide a particular service.

4.4.5 Licensing Agreement as an outsourcing strategy

Table 4.8 Licensing Agreement

	N	Mean	Std. Deviation
Our organization is involved in licensing private service providers to exclusively provide services in a particular area (licensing agreement)	93	4.4409	.49918
Vouchers are used to pay for goods and services in our organization	93	3.9542	.71350
Valid N (listwise)	93		

Source: Research Data,2015

Licencing agreement strategy is also being implemented to a large extent by the three telecommunication firms as indicated by a mean of 4.4 and a deviation of .49918.Respondents agree that the firms license private providers to provide a particular service in a particular area.

4.5 Challenges of implementation of business process outsourcing in the telecommunication firms in Kenya

The study sought to identify the challenges/risks that relate to outsourcing. The respondents were requested to pick the most appropriate response in a Linkert Scale type questionnaire. The scale range was 1 and 5 where 1 represented Strong Disagreement, 2 represented Disagree,3 Neutral,4 Agreeing,5 Strongly Agree

In analyzing the data the results were further cluttered for any value ’X’. The mean score of:

0< or equal to X<or equal to 2.5 representing Disagree

2.5< or equal to X< or equal to3.4 representing means of variables represented Neutrality

3.5<or equal to X< or equal to 5.0 representing means of variables which represent those Agreeing with the questions

Table 4.9 Challenges of Implementing Business Process Outsourcing

	N	Mean	Std. Deviation
Maintaining a harmonious relationship with vendor	93	4.2903	.71598
Conflict between goals of vendor and organization	93	4.3656	.84423
Access to competent vendors	93	2.3763	.81978
Hidden vendor costs leading to increased operating costs	93	4.4194	.77069
Indecisiveness on whether or not to outsource	93	2.5161	.58259
Inability of vendor to comply to contract	93	1.7204	.71270
Failure of vendor to adhere to security policy	93	3.3978	.61041
Vendor reputational risk	93	4.5161	.50245
Labour- related challenges	93	3.0323	.86542
Loss of control above the corporate business processes	93	4.5161	.50245
Valid N (listwise)	93		

Source: Research Data,2015

The respondents agreed that there are several challenges and risks in the implementation of Business Process Outsourcing. A higher percentage agree that Loss of control above the corporate business processes and Vendor reputational risk are the greatest challenges with a mean score of 4.5,followed by Hidden vendor costs leading to increased operating costs and Conflict between goals of vendor and organization that had a mean of 4.4.Respondents are neutral on Labour- related challenges and Failure of vendor to adhere to security policy that had a mean of and 3.4 respectively. However they disagree on Indecisiveness on whether or not to outsource that scored a mean of 2.5, Access to competent vendors as a challenge as well as Inability of vendor to comply to contract that had a mean of 2.4 an d1.7 respectively.

4.6 Effect of Business Process Outsourcing on Performance

4.6.1 Results on Rated Statements on the Effect of Outsourcing on Cost Reduction

The effect of outsourcing on cost reduction was one of the objectives of this study. In order to establish the effect of outsourcing on operating costs various statements were provided for rating by the respondents. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, and NR= None response. The findings are presented in table 4.10

Table 4.10 Results on Rated Statements on the Effect of Outsourcing and Operational Cost

Statement	1	2	3	4	5	NR	Total	Mean
BPO has reduced operational and recruitment costs	0.0	0.0	13.9	52.8	33.3	0.0	100	4.1944
BPO allows expert staff to provide excellent output under controlled cost	0.0	2.8	16.7	55.6	0.0	24.9	100	4.0278
Outsourcing has enabled control of expenses of outsourced activities	0.0	2.8	16.7	36.1	25.0	19.4	100	3.8857
Outsourcing has led to improved management of resources	2.8	0.0	2.2	47.2	2.8	45	100	3.8571
Has led to the transformation of	2.8	2.8	27.7	50	16.7	0.0	100	3.75

some fixed costs into variable costs								
Has has led to reduced number of employees in outsourced areas.	5.6	11.1	22.2	38.9	0.0	22.2	100	3.6111

From the findings in table 4.10 the mean of the responses tends towards 4 indicative of the fact that on average, outsourcing has improved overall efficiency in the telecommunication companies from which the respondents were drawn. This means that outsourcing had led to cost efficiency in telecommunication companies. These findings agree with Oshri et al. (2011) argument that outsourcing does lead to cost efficiency by reduction of government expenditure. However, the same author gives scenarios of increase in outsourcing costs which are attributed to the inefficiencies and lack of competitiveness in outsourcing. This could explain neutral response, disagree and disagree responses. These findings echo Domberger et al. (1986) argument which focused on competition as a critical factor on cost saving and determinant of expenditure reductions.

The main goal of outsourcing by organizations and institutions according Elmuti and Kathawala (2000) is to enable growth and gain sustainable competitive edge. Although it could be argued that telecommunication companies may not necessary focus on competitive advantage, cost efficiency, gaining outside expertise, greater financial flexibility through reduced overheads, need to focus on core activities, outsourcing allows firms greater control over the amount of time they would have used to employ or recruit workers, actual or perceived risks of recruiting and laying off some staff are transferred to either labour hire agency or the worker are other benefits reaped from outsourcing (Contractor et al., 2010).

These are deemed to be among the benefits achieved by telecommunication companies through outsourcing. This is particularly true since outsourcing is considered to improve efficiency by introduces competition into the provision of public services and because private firms are relatively free of political interference (Jansen & Stonecash, 2004). The findings are presented in table 4.5.

4.6.2 Results on Rated Statements on the Effect of Outsourcing and Profitability

It was imperative for this study to establish the effect of outsourcing on employee profitability in the selected telecommunication companies. To do this, statements to be rated by the respondents. The findings are presented in table 4.11. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, NR= none response.

Table 4.11 Results on Rated Statements on the Effect of Outsourcing on Profitability

Statements	I	2	3	4	5	NR	Total	Mean
BPO has led to the business to focus more on market and sales	2.8	2.8	16.7	44.4	33.3	0.0	100.0	4.0278
BPO has reduced operational and recruitment costs	0.0	2.8	19.4	50.0	25.0	2.8	100.0	4.0000
Due to outsourcing, your organization has added to the mix of problem solvers resulting in better goal achievement	0.0	0.0	16.7	50.0	27.8	5.6	100.0	4.1176
Outsourcing has allowed the organisation to restructure their activities towards profitability	0.0	0.0	19.4	50.0	27.8	2.8	100.0	4.0857
Outsourcing has led to improved service quality	2.8	5.6	8.3	55.6	19.4	8.3	100.0	3.9091
Outsourcing has improved the information sharing and the abilityof the firm to use new technologies that save on resources	0.0	0.0	22.2	47.2	22.2	8.3	100.0	4.0000
Outsourcing has provided long term benefits on profitability	0.0	2.8	11.1	63.9	19.4	7 8 .6,0	100.0	4.0286
BPO improves firms performance in terms of return per employee	2.8	0.0	22.2	47,2	25.0	100.0	100.0	3.9429

Source: Research Data,2015

From the results in table 4.11,the statements recorded a mean of 3.9 and above tending towards 4 showing that most of the respondents were in agreement that outsourcing had resulted in long-term benefits to telecommunication companies. Interview results showed that outsourcing had led to improvement in profitability in telecommunication companies through to focus more on market and sales, reduction in operational and recruitment costs, improved the information sharing and the ability of the firm to use new technologies that save on resources , improvement in firms performance in terms of return per employee and also firm restructuring their activities towards profitability.

4.6.3 Results on Rated Statements on the Effect of Outsourcing and Productivity

It was imperative for this study to establish the effect of outsourcing on productivity in the selected telecommunication companies. To do this, statements were to be rated by the respondents. The findings are presented in table 4.12. The rating scale used was strongly agree=5, agree=4, neutral=3, disagree=2, strongly disagree=1, NR= none response.

Table 4.12 Results on Rated Statements on the Effect of Outsourcing on Productivity

	1	2	3	4	5	NR	Total	Mean
Focus on core competency hence firm heightens strategic Focus	5.6	5.6	5.6	58.3	11.1	13.9	100.0	3.7419
Outsourcing has led to access to skilled and excellent expertise	0.0	0.0	11.1	50.0	30.6	8.3	100.0	4.2121
It has led to improved management of resources	0.0	0.0	16.7	61.1	11.1	11.1	100.0	3.9375
BPO leads to flexible services to meet changing market demands	0.0	2.8	2.5.0	33.3	27.8	11.1	100.0	3.9688
Outsourcing has led to improved reliability, responsiveness and assurance of services	0.0	2.8	25.0	50.0	13.9	8.3	100.0	3,8182
Outsourcing has promoted our	5.6	8.3	16.7	47.2	19.4	2.8	100.0	3.6857

growth as an organization								
Outsourcing has improved overall performance of the organisation	0.0	0.0	22.2	50.0	22.2	5.6	100.0	4.0000
BPO improves firms performance in terms of return per employee	2.8	19.4	36.1	25.0	16.7	0.0	100.0	3.9667
Business risk alleviation with BPO providers and organization sharing certain risks and responsibilities	0.0	2.8	22.2	44.4	25.0	2.8	100.0	3.9706
Outsourcing has helped organization maintain required infrastructure	0.0	M	25.0	47,2	19.4	2.8	100.0	3.8286
Outsourcing has led to increased employee productivity	5.6	0.0	19.4	4O	33.3	0.0	100.0	3.9722
BPO helps the firm gain competitive advantage	2.8	2.8	11.1	58.3	19.4	5.6	100.0	3.9412
BPO is used as a strategic element in market differentiation	0.0	0.0	11.1	16.7	11.1	61.1	100.0	3.9375

Source: Research Data,2015

From the results in table 4.12, the statements again recorded a mean of 3.9 and above tending towards 4 showing that most of the respondents were in agreement that outsourcing had resulted in enhanced productivity in the mobile telecommunication firms. Interview results showed that respondents agreed that Outsourcing has led to access to skilled and excellent expertise, has led to flexible services to meet changing market demands, has led firm to Focus on core competency hence firm heightens strategic Focus etc.

4.6.7 Regression Analysis and Hypothesis Testing

To further achieve the third objective of the study, a regression analysis was conducted to establish the relationship between business process outsourcing and performance of telecommunication firms in Kenya. Business process outsourcing strategies were the independent variables while the dependent variable was performance of Telecommunication firms in Kenya. The results have been shown in the table 4.13 below as follows:

Table 4.13 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.276[a]	.076	.034	.98945

a. Predictors: (Constant), Licensing agreement, Selecting Outsourcing, Multiple Supplier Sourcing, Contracting

From the above results in table 4.13, R is multiple correlation which indicates that there is no correlation between the variables as follows: R=.276. R-squared (R^2) which is the coefficient of determination is represented by 7.9%, which shows the extent to which the variance in the dependent variable (performance) is explained by the independent variables. This is an indication that the model is a poor predictor which implies that there are a number of predictors not included in the prediction model.

4.6.8 Analysis of Variance

An analysis of variance was used to test whether the overall regression model is a good fit for the data. The findings are as shown below in table 4.14:

Table 4.14 Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.095	4	1.774	1.812	.134[b]
	Residual	86.153	88	.979		
	Total	93.247	92			

a. Dependent Variable: Cost Reduction

b. Predictors: (Constant), Licensing agreement, Selecting Outsourcing, Multiple Supplier Sourcing, Contracting

For a 5% level of significance, the numerator Degrees of freedom (df)=4 and denominator df =88 and critical F value is 2.060. The above results show computed F value as 1.812. From these findings, the regression model is insignificant since the computed f-value is less compared to the critical value, that is 1.812<2.060. Hence, the regression model is statistically insignificant in that, all the independent variables considered do not provide a good level of explanation of the relationship between business process outsourcing and performance of telecommunication firms in Kenya.

4.6.9 Model Coefficients

The study tested the coefficients to determine the direction of the relationship between business process outsourcing and performance of telecommunication firms in Kenya. The results are provided in the table 4.15 below:

Table 4.15 Model Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.765	1.560		3.695	.000
	Contracting	.088	.173	.061	.508	.613
	Selective Outsourcing	-.112	.209	-.055	-.538	.592
	Multiple Supplier Sourcing	-.057	.220	-.031	-.261	.795
	Licensing agreement	-.481	.211	-.238	-2.276	.025

a. Dependent Variable: Cost Reduction

From the above findings in table 4.15, the regression model obtained is as follows;

Cost Reduction= $5.765+.088X_1-.112X_2-.057X_3-.48X_4+€$

Contracting is the only variable that depicted a positive relationship with performance (Cost reduction). This means that an increase in one unit of this variable will lead to a corresponding increase in performance of Telecommunication firms.

Selective outsourcing, multiple suppliers sourcing and licensing agreement showed an inverse relationship with performance. This implies that a decrease in one unit of these variables will lead to a corresponding decrease in performance of Telecommunication firms in Kenya.

Further, results observed that licensing agreement was statistically significant in explaining the relationship between business process outsourcing and performance of Telecommunication firms in Kenya. Its p-value was less than 5%, p=0.25.

On the other hand, contracting, selective outsourcing and multiple suppliers sourcing was statistically insignificant explaining the relationship between process outsourcing and performance of Telecommunication firms in Kenya. There p-values were above 5% as follows: .613, .592, and .795 respectively.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of key findings presented and discussed in chapter four, conclusion drawn from the findings and recommendations made there to. The conclusions and recommendations drawn were focused on addressing the effect of business process outsourcing on the performance of mobile telecommunication firms in Kenya.

5.2 Summary

The study established that majority of the employees sampled were men. Most of them were energetic and in productive working ages of 26 to 45 years. All the age groups of the employees were represented in the findings. Majority of the respondents were either first degree holders or masters' holders with the majority having stayed in the organization for more than three years.

Majority of the respondents who participated in the study indicated that services were outsourced mainly Security services, mailing services and health services. Network, marketing and system development are also outsourced to some extent. The telecommunication companies subcontracted on core functions too, these findings are in tandem with Hsiao's (2011) argument .Contracting was the most used outsourcing strategy. Majority also indicated that among the challenges the most challenge that affects them is Loss of control above the corporate business processes and Vendor reputational risk. The findings on effect of business process Outsourcing on performance indicate that all statements recorded means of at least 3.611 which is greater than 3 (neutral/neither agree nor disagree) and tends toward 4 (agree) indicative that the majority of the respondents were at least in agreement with the statements.

Regression analysis revealed that contracting is the only variable that depicted a positive relationship with performance This means that an increase in one unit of this variable will lead to a corresponding increase in performance of Telecommunication firms. Selective outsourcing, multiple suppliers sourcing and licensing agreement showed an inverse relationship with performance. This implies that a decrease in one unit of these variables will lead to a corresponding decrease in performance of Telecommunication firms in Kenya. Regression coefficients (B) which reveal that a positive effect was reported for contracting as a form of outsourcing used in telecommunication companies with a measure of (5.765) while the other forms of outsourcing showed an inverse relationship with performance.

5.3 Conclusion

The study concludes that contracting out was the most common form of outsourcing used in mobile telecommunication companies in Kenya. In addition this study also concluded that there was general effectiveness of outsourcing in telecommunication companies

Moreover, this study concludes that outsourcing had a significant effect on operational cost resulting in operational cost reduction in telecommunication companies in Kenya. Cost reduction was mainly cost saving, better resource management and reduction in the number of employees thus promoting of telecommunication companies' overall cost efficiency. However, despite the positive effect outsourcing had on operational cost reduction, not all forms of outsourcing had a positive effect on outsourcing.

Study findings on the effect of outsourcing on profitability in telecommunication companies showed that outsourcing does effect profitability through focus on market and sales, reduction in operational and recruitment costs, improvement of information sharing and the ability of the firm to use new technologies that save on resources, improvement in firms performance in terms of return per employee and also firm restructuring their activities towards profitability. However the effect of outsourcing on productivity in telecommunication companies was found to be insignificant.

Study results showed that outsourcing had a positive effect on productivity through access to skilled and excellent expertise, flexible services to meet changing market demands, Focus on core competency enabling firm to heighten strategic Focus etc, however, the effect was found to be statistically insignificant.

5.4 Limitations

The respondents had a very busy schedule hence getting them to respond to the questionnaire required prior notice.

The study focused on three mobile telecommunication firms whose findings may not be representative of the other telecommunication firms.

The study relied on questionnaires of which some respondents were not willing to respond to.

5.5 Recommendations

There is need to promote the use of other forms of outsourcing in telecommunication companies in Kenya. Study findings revealed that contracting out was the most popular method used by telecommunication companies. To effectively do this, there is need to evaluate the factors that make contracting out thrive and the risks emanating from each form of outsourcing in order to ensure that their implementation is effective.

Furthermore, this study given the significant effect of outsourcing on operational cost reduction, this study recommends that the factors that lead to the negative contribution of selective outsourcing, multiple supplier and licencing agreement strategies on performance be investigated and remedies put in place. This will ensure that telecommunication companies reap full benefits of outsourcing.

This study also recommends that telecommunication companies look into their outsourced services and re-evaluate the value add to productivity with a view of promoting its contribution to productivity. This is based on the fact that whereas outsourcing had effect on productivity, the effect was not significant.

Finally, this study established that outsourcing did not have significant effect on both profitability and productivity. Hence the study recommends effective communication on outsourced services and information of employees on their contribution and role on the outsourced services. This will result in teamwork and improved service delivery leading to long term benefits.

5.6 Recommendations for Further Research

Similar studies should be carried out in organizations and economic sectors where outsourcing has been carried out so as to find out if the same results would be obtained.

Sample size of 133 was used which is limited by the few organisations studied hence further studies could be done for the global network using larger samples to test whether findings if any may be replicated.

Finally an econometric analysis of results may also be done to give an indication of the significance of the different variables of performance on organization. These would rank them in order of importance which is useful for prioritization.

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APPENDIX I

MOBILE SUBSCRIBERS PER OPERATOR

Name of operator	**June-14**		
	Pre-paid and Postpaid Subscribers		**Total**
Safaricom Limited	21,405,667	522,783	21,928,450
Airtel Networks Kenya Limited	4,930,774	137,991	5,068,765
Essar Telecom Kenya Limited	2,562,339	1,471	2,563,810
Telkom Kenya Limited (Orange)	2,681,916	3,452	2,685,368
Total	**31,580,696**	**665,697**	**32,246,393**

Source: CAK, 2014

APPENDIX 11

QUESTIONNAIRE COVER LETTER

Dear Respondent,

I am a graduate student at the University of Nairobi pursuing a Master of Business Administration in Operations Management. In partial fulfillment of the requirements of the Degree I am conducting a research on ‘’The Effect of business process outsourcing on the performance of mobile telecommunication firms in Kenya’’.

For the reason I would appreciate if you would spare a few minutes of your time to fill the questionnaire to the best of your knowledge. The information obtained will be purely for academic purposes and the findings of the research shall be made available to you upon request. Feel free to avail any additional information that is relevant that may not have been covered in the interview. Thanks for your cooperation.

Yours Faithfully

Joyce M Alwang’a
MBA Student
UON School of Business

CC
The Dean School of Business
University Of Nairobi

APPENDIX II1

QUESTIONNAIRE

Research Topic: The Effect of Business Process Outsourcing on the Performance of Telecommunication Firms in Kenya

SECTION A: BIOGRAPHIC INFORMATION

1. State your gender

Male [ ]   Female[ ]

2. Please tick age bracket in which you fall

Below 25 years [ ]   26-30years [ ]

31-40 years [ ]   41-50 years [ ]

Above 50 years [ ]

3. What is your level of education?

Secondary school [ ]   Diploma [ ]

First Degree [ ]   Masters Degree [ ]

Higher Diploma [ ]

4 What is your Management level in the Organization?

Senior Level Management [ ]

Middle Level Management [ ]

Lower Level Management [ ]

5(a) what department do you work in the organization

5(b). How long have you worked with the organization?

Below 3 Years [ ]   4-7 years [ ]

8-10 years [ ]   above 10 Years [ ]

SECTION B: OUTSOURCING STRATEGIES USED BY THE ORGANISATION

6(a) Do you agree that the following services and are being outsourced by the organization? Tick appropriately in the spaces provided.

Service	**YES**	**NO**
Engineering/Network Services		
Fleet Services		
Cleaning Services		
Investment Management		
Data Entry		
Training Services		
Marketing Services		
Payroll services		
Cash collections		
Customer service		
Security Services		
Facilities Maintenance		
Quality Survey		
System Development		
Health Services		
Catering Services		
Human Resources eg recruitment, benefit management		
Mailing services		
Logistics services eg Deliveries		

6 (b) To what extent are the following forms of outsourcing used in your organization?

(Key: (Very Small Extent=1, Small Extend =2, Average =3, Large Extent=4 and Very Large Extent=5)

	1	2	3	4	5
Contracting Outsourcing in the organization involves competitive bidding process/contracting out.					
Selective Outsourcing The Organization out sources only part of an activity and performs the rest of the activity in-house. Some services are offered by volunteers at no cost on behalf of the organization/volunteers					
Multiple Supplier Sourcing/Comprehensive BPO The organization uses third parties to deliver back-office support services such as finance, payroll Our organization has strategic long term relationships with suppliers or vendors to perform some of the operations.					
licensing agreement Our organization is involved in licensing private service providers to exclusively provide services in a particular area/franchising.					

6(c) What other strategies are used for outsourcing in the organization?

....

....

....

SECTION C: CHALLENGES OF IMPLEMENTING BUSINESS PROCESS OUTSOURCING STRATEGIES IN THE ORGANISATION

7(a) Please respond to all the below listed perceived risks/challenges of outsourcing in accordance to your personal opinion for each statement. To what degree do you relate the below risks/challenges of BPO to your organization at the scale of (Strongly Disagree=1, Disagree=2, Neutral=3, Agree=4 and Strongly Agree=5)

Challenge	**1**	**2**	**3**	**4**	**5**
Maintaining a harmonious relationship with vendor					
Conflict between goals of vendor and organization					
Access to competent vendors					
Hidden vendor costs leading to increased operating costs					
Indecisiveness on whether or not to outsource					
Inability of vendor to comply to contract					
Failure of vendor to adhere to security policy					
Vendor reputational risk					
Labour- related challenges					
Legal challenges in case of security breach or other contravention					
Risk of poor quality results from BPO provider					
Loss of control above the corporate business processes					

7(b) What other challenges are faced by organizations in implementing outsourcing decisions?

....

....

....

....

SECTION D: THE RELATIONSHIP BETWEEN BUSINESS PROCESS OUTSOURCING AND PERFORMANCE:

BPO EFFECT ON COST REDUCTON

8) To what extent do you agree to the statements below relating to the effect of outsourcing on operational cost in your organization at the scale of:

(Strongly Disagree=1, Disagree=2, Neutral=3, Agree=4 and Strongly Agree=5)

Statement	**1**	**2**	**3**	**4**	**5**
BPO has reduced operational and recruitment costs					
BPO allows expert staff to provide excellent output under controlled cost					
Outsourcing has enabled control of expenses of outsourced activities					
Outsourcing has led to improved management of resources					
Has led to the transformation of some fixed costs into variable costs					
Has has led to reduced number of employees in outsourced areas.					

BPO EFFECT ON PROFITABILITY

9) To what extent do you agree to the statements below relating to the effect of outsourcing on profitability in your organisation.

Statement	**1**	**2**	**3**	**4**	**5**
BPO has led to the business to focus more on market and sales					
BPO has reduced operational and recruitment costs					
Due to outsourcing, your organization has added to the mix of problem solvers resulting in better goal achievement					
Outsourcing has allowed the organisation to restructure their activities towards profitability					
Outsourcing has led to improved service quality					
Outsourcing has improved the information sharing and the					

ability of the firm to use new technologies that save on resources					
Outsourcing has provided long term benefits on profitability					
BPO improves firms performance in terms of return per employee					

(Strongly Disagree=1, Disagree=2, Neutral=3,Agree=4 and Strongly Agree=5)

BPO EFFECT ON PRODUCTIVITY

10) To what extent do you agree to the statements below relating to the effect of outsourcing on productivity in your organisation.

(Strongly Disagree=1, Disagree=2, Neutral=3,Agree=4 and Strongly Agree=5)

Statement	**1**	**2**	**3**	**4**	**5**
Focus on core competency hence firm heightens strategic Focus					
Outsourcing has led to access to skilled and excellent expertise					
Outsourcing has led to improved management of resources					
BPO leads to flexible services to meet changing market demands					
Outsourcing has led to improved reliability, responsiveness and assurance of services					
Outsourcing has promoted our growth as an organization					
Outsourcing has improved overall performance of the organisation					
BPO improves firms performance in terms of return per employee					
Business risk alleviation with BPO providers and organization sharing certain risks and responsibilities					
Outsourcing has helped organization maintain required infrastructure					
Outsourcing has led to increased employee productivity					
BPO helps the firm gain competitive advantage					
BPO is used as a strategic element in market differentiation					
Outsourcing has provided the organization with opportunities to add more expertese to their resource pool					

END OF QUESTIONNAIRE

Thank you for your input and cooperation