THE IMPACT OF OUTSOURCING ON PERFORMANCE: A CASE STUDY OF AIRTEL NETWORKS KENYA LTD

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION (MBA) SCHOOL OF BUSINESS OF UNIVERSITY OF NAIROBI.

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Declaration

I hereby declare that this research project is my original work and has not been submitted before an examining body for a degree in any other University or in other forum by any individual or group of individuals.

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Recommendation by the Supervisor.

I declare that this research project has been prepared under my supervision and is submitted for presentation with my approval as university supervisor.

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Dedication

This research project is therefore dedicated to both My mother Judith Kagali, my brothers Fredrick and Kenneth and their families. This research project is also dedicated to my wife Elizabeth Ungadi and my two sons Kelian Kagali and Jerome Mujumba. Through this I have sometimes not given them the attention that the expected from. I hope that they understand that my absence was for a good course. I also hope that my mother would acknowledge that her prayers were not in vain.

ABSTRACT

Outsourcing has emerged as an important business and economic strategy for achieving competitive advantage in companies these days. Although outsourcing enables companies to achieve competitive advantage, outsourcing of operations is not easy to perform. Several factors are involved which ultimately affects the performance of a company which will make it challenging for managers. Therefore, it is important to consider all factors while conducting outsourcing operations in Kenyan market.

The purpose of this study is to investigate the impact of outsourcing on the performance of the business. With that view we have analyzed what implications of various factors in overall outsourcing process. Also analyzed are probable solutions to minimize the risks associated with Outsourcing.

Airtel Kenya was chosen to investigate our problem. Airtel Kenya ltd is one of the leading companies where outsourcing is widely undertaken. Data collection was done through a case study design with the question as the tool of data collection.

Study finding shows that there are benefits enjoyed as a result of outsourcing. There are also some factors that act as a hindrance to this smooth operation in outsourcing. Finally recommended are some probable measures to increase overall performance of outsourcing in operations.

Key Words: Outsourcing, performance, case study, Airtel Kenya Ltd,

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Acronyms and abbreviations

ARPU=Average revenue per user.

BPO = Business Process Outsourcing

CCK = Communications Commission of Kenya

IBM = International Business Machines

IT=Information Technology.

ITES = information Technology Enabled Services

MTC = Mobile Telecommunications Company

OPEX=Operating expenses

Chapter 1 INTRODUCTION

1.1. Background

Firms face intense competitive pressures due to factors like technological change and globalization. In response to these concerns, companies, both large and small, are increasingly outsourcing their activities by shifting what they traditionally handled in-house to external suppliers. Outsourcing refers to the relocation of within-firm processes and functions to external providers either at home or abroad has been one of these flexibility strategies (Olsen 2006; Hesmati 2003).

Outsourcing is growing at an exponential rate, as the increasingly global marketplace sees an array of competitive factors such as cost, speed, quality, volume, flexibility and innovation becoming increasingly important, leading firms to move from transactional outsourcing to using more strategic outsourcing as a means of achieving competitive success. Firms which achieve success in their international business are those that perceive the changes in the international environment and who are able to develop strategies that enable them to respond accordingly, (Gilley, Greer and Rasheed 2004). Their survival is based to a great extent on early identification and analysis of changes in markets and industries in their international market environment.

Following the increase in outsourcing as a result of global competition, the scope of outsourcing changes from the traditional concept to strategy (Quinn & Hilmer, 1994). Strategic outsourcing is concerned with creating value to align with the business processes that are changed to be in line with strategic goals (Mazzawi, 2002).

Telecommunications plays a very integral part in every sphere of human endeavor. Therefore deciding a telecom solution for the business now has not only technical significances but also economical. Fluctuating economic and market conditions are forcing these organizations to evaluate how knowledge, assets, and resources are utilized to produce strategic opportunities in response to the threat posed by the competition, this has made outsourcing a crucial discourse in the establishment of strategic process in many organizations. Consequently, management are employing the abilities of a team of combined local and foreign expertise in addition to the use of new technologies to improved service delivery to customers with the belief that outsourcing, can result in cost saving and provide the much needed competitive edge. Therefore, organizations are focusing on creating values by demanding particular competencies of individuals, and outsource every business functions that will enable them gain the competitive advantage with the exception of some specialized functions (Quinn & Hilmer, 1994).

Airtel Kenya entered into the Kenyan Market when Bharti Airtel bought Zain Africa operations. Its operations are largely centered on the way its parent company Bharti Airtel india operates. Bharti has a firm commitment to growth and, through a highly cost-effective outsourcing business model, with which it aims to differentiate itself in India's highly competitive communications environment by ensuring customer delight through personalized customer service. Bharti has a solid reputation in India (http://www.nortel.com/). It is through this model that Airtel Kenya hopes to adopt in order to streamline its operations and make it enjoy a competitive advantage in the market. Airtel Kenya is one of few companies in Kenya in which outsourcing is widely being practiced. Indeed it would have been hard for me to imagine that a telecommunication company could outsource critical function such as network maintenance and customer services, which seem to be critical to its existence. What remains to be seen is whether this model can succeed in the Kenyan operation.

1.1.1. Concept of Outsourcing

In todayǿs world management carefully weighs the costs and benefits of every new investment decision, getting evidence of the results of outsourcing are critical. In particular, research considering the details that help make an outsourcing decision's results is likely to be critical and beneficial to corporate management that is considering outsourcing. The fundamental basis for outsourcing is the focus on core activities of a company. Core competence or core activities of the company are the basis of its competitive advantage in the marketplace (Prahalad& Hamel, 1990).

All businesses have their own core activities that form the basis of their business models. The rationale for outsourcing those activities that are outside of the core competencies has been to limit the activities management has to manage. The attention and focus of managers is a scarce resource that is seen as best utilized for the companyǿs core activities. After identification of core activities, the organization can develop to support their management and utilization (May, 1998). In addition to the core business activities of a company, there are non-core activities, which are usually further divided into essential and non-essential activities. While these activities are not the core business of a company, they remain important contributors to the success of the whole business (Quinn, 1999).

These non-core activities are best produced by other businesses/organizations that specialize on them, i.e. make them their core business and form their organization around those activities.

Managing these outsourced activities is a key success factor in todayọs business life. Outsourcing is characterized by its goal of improving the actual core business performance of the client firm. Leading companies in todayọs business environment often outsource core processes such as design, engineering, manufacturing and marketing (McIvor, 2008)

As companies globally struggle to cope with rapid technological change, reduced time to market, mass customization, rising costs, quality and increased competition, they are considering ever more strategic and risky outsourcing initiatives. It is essential that the outsourcing rationale is clearly driven by the firmọs competitive strategy. In summary, Lankford and Parsa (1999) believe that the decision to outsource can lead to competitive advantages for businesses but to be successful the decision needs to be an informed one. Good, hard, detailed information in the hands of strong management can help avoid a costly step, one that is not easily reversed. Ultimately, for outsourcing in any form to be successful, quick response timestostrategic opportunities and threats are essential. Effective management of the outsourcingrelationships is an organizational imperative.

1.1.2. Performance Concept.

Performance measurement systems vary widely from company to company and from sector to sector. They ñenable an organization to plan, measure, and control its performance and helps ensure that sales and marketing initiatives, operating practices, IT resources, business decision, and peopleọs activities are aligned with business strategies to achieve desired business results and create shareholder valueò (ACIPA, 2001).

They are used by organizations to motivate managers and employees to perform specific activities. As well as monitoring whether the defined activities are being performed effectively and efficiently, and evaluate whether the defined activities are consistent with their strategies. According to AICPA (2001), ñorganizations view their business performance measurement systems more as a tool to measure business results and provide feedback on operations and individual performances than as tools to execute strategies and drive longer-term competitive advantage and sustainable shareholder valuesò.

According to McCormack and Johnson (2001), there are three ways to measure business performance. These are process measures, which include the definition of activities and variables as part of the work procedures themselves, operational measures, which define the specific characteristics, features, values and attributes of each product or service. Finally, outcome measures, which measure the impact of the process on the customer, specifically on what the customer does with the product or service.

It has been found that companies (both large and small) find that a mixture of financial and non-financial performance measures are preferable to those that use one or the other because of the nature of outsourcing. The use of non-financial performance measures are particularly important because people are the main things affected by the decision to outsource and because people contain all the knowledge in the company and are vital to the companyÕs success it is important to find out if they are satisfied. Without the necessary knowledge, an organization cannot successfully compete (Philips-Connolly, 2004)

1.1.3. Airtel Networks Kenya.

Airtel began life in Kenya as Kenya Cellular Communications Ltd, or Kencell a joint venture between Vivendi of France and Sameer Investments of Kenya. At the time, the shareholding in Kencell was 40 percent for Vivendi and 60 percent for Sameer, so as to comply with the regulations of the Communications Commission of Kenya. Between 2000 and 2003, Kencell grew very fast due to its high quality voice and data network. But poor revenue and high operational costs saw Kencell post huge losses in the period between 2003 and 2004. After the string of losses and stunted growth of the operator in 2005 Vivendi opted out of the venture selling off her 40 percent stake in Kencell to Celtel International. The buyout saw the operator rebrand to Celtel Kenya. In only one year, Celtel International transformed the fortunes of the operator drastically.

In 2005, the operators profitability changed by 175 percent posting profit after tax of $17 million from the loss after tax of $25 million incurred during 2004. This was the first time the company has made profits. But the following year was not as profitable as the operator only managed $ 1 million. By the time operator changed hands, again, in 2008 it had stopped making its results public. Yet interestingly, although Celtel Kenya was making only modest profits the rest of Celtel operations in Africa were posting impressive results.(www.itnewsafrica.com)

Celtel International was bought out by Zain Groups predecessor Kuwaitiõs Mobile Telecommunication Company (MTC) at an all cash offer of $3.4 billion. The buyout was to usher in the rebranding of Celtel to Zain.(www.itnewsafrica.com) As the holding company, Zain has been very profitable. In the year ended December 31, 2008 Zain Group posted record results for the financial year ended, with revenues increasing by 26 per cent to reach $7.441 billion, although fourth quarter results were hit by currency fluctuations. The groupôs customer base grew by 50 percent to reach 63.5 million subscribers, while net profit increased by 6 per cent compared with 2007 to reach $1.2 billion Zain. The profits were mainly pushed by growth in Africa where it has the largest presence. Zain had a presence 16 African countries and 6 in the Middle East. www.itnewsafrica.com)

On 8, June 2010, Bharti Airtel, in the largest ever telecom takeover by an Indian firm completed a deal to buy Kuwait-based Zain Telecom's businesses in 15 African countries for $10.7 billion. (http://en.wikipedia.org) In august 2010, Bharti Airtel made an entry into the Kenyan market with reduction of call rates. Since its entry in the Kenyan market, Airtel Kenya is always trying to employ a different operations model as opposed to the one adopted by its competitors. Its model largely borders on outsourcing most of its operations to its trusted partners. With its low-cost model, the firm is increasingly opting to outsource non-core businesses that saw it hand over its network functions to Nokia Siemens Network (NSN), customer care (Spanco services) and IT work to IBM. Airtel Kenya is the second largest mobile phone operator in Kenya. It had 4 million subscribers as on January 15, 2011. (CCK, 2011)

1.2. Research Problem

Business environment has changed significantly in terms of competition and financial performance. This has forced companies to mainly focus on core business activities. Not all organizational activities are nowadays provided and managed internally. Behind every decision to outsource, the main motivation for the firms is to remain competitive and gain the competitive edge over the competitors by reducing production cycle time, reducing production costs, reducing time to market, improving product and service quality and enhance overall organizational effectiveness (Gilley, Greer and Rasheed 2004).

The link from outsourcing to performance is less well developed empirically (Gilley and Rasheed,2000; Masten, 1993). Recent normative literature (Domberger, 1998; Quinn, 1999) and managerial practice, where outsourcing has been one of the buzzwords (Porter, 1997), suggest that outsourcing is one of the key sources for increasing a firmós performance. Various arguments have been provided for such a positive relationship. Because outsourcing makes a firm more productive, it allows firms to increasingly focus on its core activities (Domberger, 1998; Quinn, 1999). Outsourcing also lowers production costs because specialized suppliers are used (Hendry, 1995; Kotabe, 1998) and it increases a firmós strategic flexibility to deal with technological or volume fluctuations (Balakrishnan and Wernerfelt, 1986; Semlinger, 1993). Outsourcing helps to avoid the costs associated with bureaucracy typically associated with production inside the firm (DóAveni and Ravenscraft, 1994;Jensen and Meckling, 1976). Finally outsourcing opens up the possibility of obtaining rents from relations with suppliers (Dyer and Singh, 1998; Linder, 2004).

While firms may now have the opportunity to outsource, outsourcing initiatives do not necessarily fulfill all their expectations. Writing a poor contract and losing control over the outsourced activity has the largest impact on the (negative) outcome of outsourcing efforts (Barthelemy, 2003). The client organization can be blamed for the failure of the outsourcing relation (Booijen, 2005). Without the appropriate management by the client organization, it is difficult for the service provider to provide suitable services fulfilling the expectations. In the field of outsourcing most of the literature focuses on the outsourcing decision, while few research is present which focuses on the situation after the decision to outsource has been made. Nevertheless, research of Gartner (2003, adapted from Op de Coul, 2007) showed that 45% of all outsourcing relations are perceived as insufficient. This raises questions about the causes of these insufficiencies. A possible explanation can be found in taking the wrong decision, in that case companies decided to outsource when it would have been better to accomplish these activities inside their own company. Otherwise, the problem should be located in the management of the relationship.

From the above examples it shows that empirical research displays a similar pattern where some studies found a positive relationship between outsourcing and performance, while others found either a negative relation or no connection at all. So evidence on this topic is inconclusive and the influence of the make-or-buy decision on a firmös effectiveness remains unclear. One cannot clearly point to a direction that outsourcing will ultimately lead a company. Therefore this study intends to answer the following research question; how does the overall outsourcing level impact on a firmös performance? Are there any risks or benefits associated with outsourcing? What are the main motives for starting an outsourcing relationship?

1.3. Objective of the study

The objective of this study was to determine the impact of outsourcing on the performance of an organization.

1.4. Value of the study

This study aims to show how operations will run smoothly as a result of partnering in outsourcing that is being carried out by Bharti Airtel India (specifically Airtel Kenya). If this indeed produces the desired outcome it would indicate that most of other firms in the local market should adopt such model if they aim to improve their operations in terms of productivity and profitability. The study also intends to show how organizations can take advantages of their strengths and leverage on their weaknesses through outsourcing. The study will shade more light about issues of outsourcing. This will help benefit many people who wish to understand the intricacies involved in outsourcing.

Chapter 2 LITERATURE REVIEW

2.0. Introduction

In the very competitive Kenya communications sector, the rising cost of doing business is becoming a source of concern to telecom operators and stakeholders alike, with increase in expenditure and constant reduction in profit margin. This has no doubt affected telecom service delivery despite the tremendous growth in the telecommunications industry. Also, with globalization and increasing competition, telecom tariffs are falling leaving operators to grapple with consistent decline in Average Revenue per User (ARPU). The Guardian Newspaper (October 2010) reported that, globally, 65-70 percent of an operatorφs Operating Expenditures (OPEX) goes towards telecom infrastructure provisioning cost. With this situation, operators are now seeking innovative and cost effective ways of doing business, and which have brought the desire for an outsourcing model that can help reverse the trend. The same logic that influences a companyφs make or buy decision also influence the desire to outsource. (Ivanka et al., 2008)

In this chapter I review literatures that specifically deal with Outsourcing. The review covers the latest research works and research works that have relevant inputs regarding of the specific context of this study.

2.1. Outsourcing definition

The business environment has undergone major changes, particularly in the last six decades. And companies are under significant pressure to maintain and increase their profitability as well as customer service and market share in a global economy. Outsourcing is one more approach that can lead to greater competitiveness. (Weston, 1996; as quoted by Embleton &Wright,

1998).Greaver (1999) supports this view and indicates the need for organizations to think about how they should deal with market pressures. He also points out that organizations are rethinking if the traditional paradigm of owning factors of production is the best to achieve competitive advantage. Outsourcing on the other hand is viewed as that of moving activities out of the organization to where the experts and their resources exist as opposed to owning all of them. Out sourcing if done successfully can be a powerful tool for achieving competitive advantage, but of unsuccessful, it can lead to suboptimal performance, lack of morale and lost business opportunities. Many problems arise from outsourcing due to companies searching for shortcuts to deal with market pressures and weaknesses thus they fail to consider long term.

Fan(2000) states that outsourcing is a contractual agreement between the user and one or more providers to provide services or processes that the user is currently providing internally. He states that the main difference between outsourcing and any other purchasing agreement being that the user contracts-out a part of their existing internal activity. Lankford and Parsa (1999) define outsourcing as the procurement of products or services from sources that are external to the organization. Thus the decision making process that management must undergo when considering outsourcing thus hinges on make-or-buy or in-source-out-source philosophy and in the current business environment it is possible to outsource virtually any aspect of the business. (Embleton& Wright, 1998).

2.2. The development of the outsourcing concept

Recorded outsourcing practice appears to date back to 18th century England. However, it was the 1960s that saw the rise of specialized companies that promoted their identities as being able to take on and run processes for other organizations. (Bendor-Samuel, 2000). Over the years, as organizations became more complex, their resources also became increasingly specialized and directed towards specific elements of their operations such as project design, engineering, manufacturing, human resources, information technology, sales, and logistics. This specialization encouraged the outsourcing of non-core activities, challenging management to re-evaluate the desirability of traditional vertical integration and the meeting of all organizational needs with in-house support. (Boyson, Corsi, Dresner & Harrington,1999).

By the 1970s there was also an increasing recognition that many large and diverse corporations were under-performing, showing disappointing rates of return. Formed in the post-war period, when managers were encouraged to conglomerate, horizontally integrate or vertically integrate, these corporations had aimed to achieve economies of scale within their own organizations, to exercise greater market power, to increase security through an increased production range, and to gain greater control over raw materials sources or distribution channels by means of vertical, forward and backward integration (Lonsdale & Cox, 2000).

In the 1980s this under-performance became even more pronounced with the onset of global recession, and a consensus emerged which suggested that corporate strategies should go into reverse and that companies should focus on fewer core activities. (Lonsdale & Cox, 2000). Since then outsourcing has been in continuous use in numerous industry sectors, particularly as it received impetus in the latter half of the 1980s and 1990s in the emerging service sector (Kakabadse& Kakabadse,2000). The rise in awareness in the ranks of senior management that such a tool as outsourcing exists and is appropriate for more than the most menial tasks however mainly occurred only during the 1990s (Bendor-Samuel, 2000). Now it is estimated that every Fortune 500 company will consider outsourcing during the first decade of the 21st century.

2.3 Motivations for outsourcing

There are three major categories of motivations foroutsourcing: cost, strategy, and politics. The first two commonlydrive outsourcing by private industry. Political agendas often drive outsourcing by public organizations (Kakabadse and Kakabadse, 2000). While there may be three categories, outsourcing activities are likely to be initiated for more than one reason and in fact, may be driven by elements from all three categories. For example, the outsourcing of taxing and health services for the British government was driven by elements from both the cost and political categories (Willcocks and Currie, 1997). The political climate favored privatization because of the belief that private firms are more efficient and provide better service than the public counterparts. Cutting the cost of providing services also drove the British governmentôs outsourcing efforts.

Each of the three major categories is discussed in more detail in the following sub-sections.

2.3.1 Cost driven outsourcing.

Much of the literature identifies the desire to save costs as an explanation for why outsourcingoccurs(Arnold, 2000; Aubertet al., 1996; Bienstock and Mentzer, 1999; Bergsman, 1994;Brandes et al., 1997; Fan, 2000; Kriss, 1996; Laarhoven et al.,2000; Vining and Globerman, 1999; Willcocks et al., 1995). In theory, outsourcing for cost reasons can occur when suppliersô costs are low enough that even with added overhead, profitand transaction costs suppliers can still deliver a service for a lower price (Bers, 1992; Harler, 2000). One may wonder how an organization can achieve enough savings to cover an additional layer of overhead and still meet profit requirements yet perform a function for less than another organizationalready doing the function. Specialization and economies of scale are mechanisms used to achieve this level of efficiency(Klainguti, 2000; Ashe, 1996; Kakabadse and Kakabadse,2000; Quinn et al., 1990; Roberts, V. 2001). In fact, cost savings due to outsourcing can be quite significant.

In a survey of 7500 public organizations in Australia, the outsourcing of cleaning services saved an average of 46 percent over in-house performance of the service (Domberger and Fernandez,1999).A desire to save indirect costs may also drive outsourcing. Having fewer employees requires less infrastructure and support systems (Fontes, 2000; Hubbard, 1993) which may result in a more nimble and efficient organization. Some organizations outsource to achieve better cost control

Although organizations may outsource for cost related reasons, there are no guarantees that expected savings will be realized. There is increasing evidence that cost savings have been overestimated and costs are sometimes higher after outsourcing (Bryce and Useem, 1998; Cole-Gomolski, 1998;Pepper, 1996); Vining and Globerman, 1999; Welch andNayak, 1992). As an example, again in the survey byDomberger and Fernandez mentioned above, the outsourcing resulted in an average 9 percent increase in costs(Domberger and Fernandez, 1999).

In addition to not realizing the costs that originally drove the outsourcing initiative, there are also some additional indirect and social costs that may be incurred (Gillett, 1994,Maltz and Ellram, 1997). Indirect costs may include contract monitoring and oversight, contract generation and procurement, intangibles, and transition costs. Capital expenses incurred by the relationship should also be calculated (Hubbard, 1993; Bounfour, 1999; Burzawa,1994; Cole-Gomolski, 1999; Kakabadse and Kakabadse, 2000; Vining and Globerman, 1999).

The social costs of outsourcing may be difficult to quantify but they can be significant. Outsourcing may result in low morale, high absenteeism, lower productivity, etc. (Eisele,1994; Kakabadse and Kakabadse, 2000; Walsh, 1996).Further the social costs are not necessarily limited to the organization. Laffertyës and Roanës (2000) study suggests that the education and skill level of a whole class of workers maybe declining due to outsourcing of public services.Contractors are less willing to pay for employee education anddevelopment. The message in the literature is that the desire for cost savings may drive many outsourcing initiatives. The literature shows that significant savings can result. However, savings are not a given. Apparently the effects of outsourcing on an organizationës cost are not yet fully understood and perhaps the variables and their relationships are more complex than expected.

2.3.2 Strategy-driven outsourcing.

More recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility (DiRomualdo and Gurbaxani, 1998; Elmutiand Kathawala, 2000; Harris and Giunipero, 1998; Lankfordand Parsa, 1999; Meckbach, 1998; Muscato, 1998; Mullin,1996; Quinn, 1999; Roberts, V. 2001; Wright, 2001). In general, the literature supports outsourcing as a strategy, which may offer improved business performance on numerous dimensions (Brandes et al., 1997; Dekkers, 2000;Klopack, 2000; McIvor, 2000; Moran, 1997; Old, 1998;Prahalad and Hamel, 1990; Quinn et al., 1990). Perhapsthe most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies (Sislian and Satir, 2000; Quinn and Hilmer, 1994; Quinn,1999). Because of intense competition, organizations areforced to reassess and redirect scarce resources (Work Management, 1999; Drtina, 1994; Jennings, 1997; Ketlerand Walstrom, 1993; Kriss, 1996;

Leavy, 1996; Ngwenyamaand Bryson, 1999; Quinn, 1999; Razzaque and Chen, 1998).Resources are typically redirected to where they make thegreatest positive impact, namely the organizationǫs corefunctions.

In addition to refocusing resources onto core competencies, other strategy issues which encourage the consideration ofoutsourcing are restructuring, rapid organizational growth, changing technology, and the need for greater flexibility tomanage demand swings (Eisele, 1994; Iyer and Kusnierz,1996; Kakabadse and Kakabadse, 2000; Lankford andParsa, 1999; Large, 1999; Livingston, 1992; Pinnington andWoolcock, 1995). Flexibility appears to be an importantdriver not just from a scale perspective but also regarding thescope of product or service. Organizations need to reactquicker to customer requirements and outsourcing is seen as avehicle to accomplish this. Outsourcing may also be perceived as a way to reduce the organizationǫs risk by sharing it withsuppliers and at the same time acquire the positive attributesof those suppliers. The partnerships that resultfromoutsourcing may enable an organization to be a world-classperformer for a whole suite of products and services where itcould only be an average performer by itself. This strategyresults in a so-called ñvirtual organizationò where functionsare outsourced to multiple vendors under one agreement. Together the suppliers perform an integrated set of services. There are, however, potential pitfalls when outsourcing for strategic reasons. Organizations may ñgive away the crown jewelsò if they are not careful (Gillett, 1994). IBM is used as a frequent example of a company that outsourced the ñwrongò things (the operating system). If organizations outsource thewrong functions they may develop gaps in their learning orknowledge base which may preclude them from future opportunities (Earl, 1996; Prahalad and Hamel, 1990). In a study of the aeronautics industry Paoli identifies a limit of thevirtual organization concept (Paoli and Prencipe, 1999).Specifically, in highly integrated and evolutionarytechnologies, applying the traditional core competence tests may result in outsourcing too many or the wrong functions. Literature also indicates that in industries with complextechnologies and systems, internal synergies may be lost when some functions are outsourced. This could result in lessproductivity or efficiency among the remaining functions (Quinn and Hilmer, 1994).

2.3.3 Politically-driven outsourcing

There are several reasons why a public organization maybehave differently than a private firm and therefore may havedifferent outsourcing motivators. For example, Avery (2000) argues that the performance of a service by the publiclaboratory is not based on market demand or profitability. The issues may be more social than economic. He uses theexample of the public organization detecting a virus or healthhazard, whereas the private organization would be in thebusiness of treating the infected for a fee. Even when theservices appear to be identical, the products may be verydifferent. Industry performs a service to make money whereasthe public organization attempts to ensure general well-being; a different goal and mission. So while cost and strategy maydrive private firms, the desire for the general well-being ofcitizens may drive outsourcing by public organizations. Other factors that may be drive outsourcing by publicorganizations include the agendas of elected officials, publicopinion, and current national or international trends (Avery,2000).

Because public organizations are sometimes perceived asinefficient and bureaucratic, political candidates may promoteoutsourcing ideas, particularly at election time, todemonstrate their willingness to make positive changes. Once laws are enacted, the public organizationhas no choice but comply. In such situations the outsourcingdrivers are the governing laws and executive orders; anotherrecognized reason for outsourcing by public organizations(Kakabadse and Kakabadse, 2000).Yet another reason for public sector outsourcing may bebetter accountability. Deakin and Walsh (1996) find thatmanagers in public organizations generally realize anaccountability improvement in the particular function beingoutsourced. However, the managers also believe that there is asimultaneous decline in accountability to the public. Theexplanation is that a supplier works for the government and performs the functions to satisfy the governmentrepresentative whereas a government employee works forthe public and keeps their interests primary.Willcocks and Currie (1997), and Willcocks et al. (1995)write on outsourcing and findthat in public organizations one of the four primary drivers foroutsourcing is the bandwagon effect. Apparently operating ñlike a businessò has appeal for the public organization. Theauthors also identify managerôs preference to divest oftroublesome functions as another major reason to outsource. In summary, there is enough evidence in the literature tosuggest that outsourcing by public organizations may beinitiated for reasons quite different from private industry. While the reasons may be different, the desired benefits areoften similar.

2.4 Impact of outsourcing on business performance.

An outsourcing project can have both positive and negative impacts on a business performance. The outcome ultimately depends on the way the company goes about the outsourcing project and what support the project receives from top-level management. Furthermore, the phase the company is at in the outsourcing project can have a direct impact on business performance. For example, just before or just after signing the contract the benefits reported by companies are not actual but projected benefits, which could lead the company into many problems if they do not consider this (Barthelemy, 2004). The impact of outsourcing can be divided into reasons and challenges of outsourcing.

2.4.1 The expected benefits of outsourcing.

The rapid growth of outsourcing suggests that both public and private organizations expect benefits from outsourcing. Naturally different organizations in different circumstances will expect different benefits. For example, all organizations may expect costs savings even though in government outsourcing, the typical cost savings are only about half of what the private sector achieves (Kakabadse and Kakabadse,2000). The expected benefits of outsourcing may include realizing the same or better service at a lower overall cost, increased flexibility and/or quality, access to the latest technology and best talent, and the ability to re-focus scarce resources onto core functions. For the political organization, additional expected benefits may include better accountability and management, and a better political posture. There also appears to be an expected benefit of mimicking competitors or ñgetting ridò of troublesome functions (Willcocks and Currie, 1997).

2.4.2 Potential risks of outsourcing

As with any process, there is a negative side to outsourcing. However many of the disadvantages of outsourcing, are the flipside of the advantages or gains, and may arise mainly due to poor outsourcing decisions and management. Embleton and Wright (1998)

Lankford and Parsa (1999) add that determining core competencies, which is key to the outsourcing decision, can be difficult, and a mistaken decision, very costly. They go on to point out that despite the sound financial appeal; outsourcing is also a subject that is still fraught with emotional overtones. The fear of losing control, for example, is a major emotional stumbling block to outsourcing. Companies are also averse to the idea of provider dependency. According to Greaver (1999), outsourcing problems can generally be divided into people, process, technology and other problem areas. People problems can have many causes, from the loss of key people to poor performance, to people not getting along well together. Process problems generally result from how the operations are set up; how decision rights, responsibilities, and authorities are distributed; and how the activities are defined. Technology problems generally relate to the acquisition, implementation, and maintenance of equipment or systems. These problems can have their root causes in either party, and addressing the problems is a shared responsibility.

Companies have various reasons why they choose not to outsource. Greaver (1999) asserts that these are excuses; that companies avoid outsourcing by saying that it needs more study; they are too busy to study it presently; it is a good idea but the timing is wrong; they require several pilot projects to be successful first to prove that it works; customers will be unhappy; there are too many hidden costs to outsourcing; and that they could never terminate employees who would not transfer to the provider. He goes on to categorize the excuses that companies have not to outsource, as excuses of uncertainty; loss of control; conflict; financial; employee unhappiness. Employee unhappiness, for example, is a significant problem with regard to outsourcing. The concept brings fear to labour unions and bureaucrats alike and thus is a source of considerable risk as the cultural and psychological barriers work against its acceptance. (Cardinali, 2001). Most employees do not understand what outsourcing means, and they view the process as synonymous with losing their jobs. (Ransom, 1996; as quoted by Embleton& Wright, 1998). With attitudes like this, it is obvious that management's job is not complete once the outsourcing contract is signed. In addition to ensuring that external processes run smoothly, management must address the issue of staff reduction and corporate structure. Failure to do so may well negate the value of the whole exercise. Furthermore, where management is bent on staff reductions and prejudges outsourcing as a way to keep essential functions operating while deep staff cuts are carried out, then mistakes are likely. The outcome might be a lean, mean internal staff or a dispirited, anorexic one. (Gamble, 1995; as quoted by Lankford &Parsa, 1999).

As pointed out by Greaver (1999), even in the best of outsourcing situations, problems arise. New innovative management strategy can produce expected problems. Furthermore, it is important to investigate whether such problems and mediocre outcomes of outsourcing implementation are due to inherent flaws in the concept, or whether they are the result of poor management practice. (Lonsdale & Cox, 2000). Ensuring the success of an outsourcing project thus includes the management of potential problems, and the more planning that is undertaken around the risk factors before implementation, the higher the probability of success. (Crowley, 1999; as quoted by Elmuti&Kathawala, 2000).

Chapter 3: RESEARCH METHODOLOGY

3.0. Introduction

This chapter describes the methods employed in carrying out this research work that look at the effects of outsourcing on performance at Airtel Kenya Ltd. In order to accomplish this research objective, primary sources of information were employed in gathering data needed for the study, using questionnaire survey. This chapter looks Research design and how the actual information gathering processes for the research was be carried out using questionnaire survey as the major instrument for the data collection. Finally, this chapter looks at the method employed in analyzing the data collected.

3.1. Research Design

The research is to be conducted through a case study design where all units are sampled. Case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991). Case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data.Single cases may be used to confirm or challenge a theory, or to represent a unique or extreme case (Yin, 1994). Single-case studies are also ideal for revelatory cases where an observer may have access to a phenomenon that was previously inaccessible.

3.2. Data Collection

For the purpose of the study, primary data was collected. Questionnaires were used to collect primary data on outsourcing practices. All the respondents were presented with similar questionnaires so as to provide equal and unbiased perspectives for their answers. Respondents were required to tick the answers and specify other alternatives than those provided in the questionnaire. The questionnaires were selected because they are believed to be concise and less time consuming. They are also convenient for both the researcher and participant. The participant can fill in the questionnaire at their own free time which is likely to generate a well thought out response rather than rushing through the question to save time. The questionnaire (Appendix B) contained two parts. Part A was designed to collect background profile of the respondent. Part B of the questionnaire consisted of Likert-scale items to ótapô information on impact of outsourcing on performance at Airtel. Also below each of the tables for benefits, risks the respondents were asked to provide their own independent remarks.Airtel has a total of 28 sections (i.e. Sub departments), two respondent were picked from each section. This gave a figure of 56 respondents. The questionnaire was self-administered by two research assistants.

3.3. Data Analysis

The raw data from the questionnaire was standardized with contents aligned as much as possible to represent the data collected. The process of analysis began with categorizing data into sections ï irrelevant, contextual and relevant. Focus was placed on the relevant data. This data was further analyzed using spreadsheet; in this case Microsoft Excel, as the tool which aids in detecting patterns in the collected data. To produce a numeric value used to generate the frequency distribution of the views held by respondents, like patterns are grouped together and their count noted.Data is presented in both tabular and graphic form in order to give a clear picture.

Descriptive statistics was used to analyze parts of both questionnaires. Percentages and frequencies were used to summarize the data. Respondents opinions and attitudes were assessed on 1=Not important at all to 5=Very important likert scale by calculating the average scores.

Likert scale was used because information gathered in the social sciences, marketing, medicine, and business, relative to attitudes, emotions, opinions, personalities, and descriptionôsof peopleôs environment involves the use of Likert-type scales (Gliem and Gliem, 2003). The Likert instrument has also been shown to have acceptable levels of reliability and validity across a variety of settings (Elmuti, 2003).The impact of outsourcing was calculated through the use of correlation analysis.

CHAPTER 4: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter presents data analysis, presentation, interpretation and discussion of the findings on the impact of outsourcing on performance with reference to Airtel Kenya ltd. The data was analyzed with the help of a computer spreadsheet program called Microsoft excel. This enabled the researcher to present the data in frequencies, percentages, tables, cross-tabulations and charts. The chapter is organized into the following sections: The background information of the staff members which deals with the demographic information of the respondents. The second sections deals with views of the respondents on the impact of outsourcing at Airtel networks ltd. The last section deals with the additional results and opinions on the various outcomes of the study.

4.2 Data analysis

4.2.1 Background information of the Staff members.

This section talks about the demographic information of the staff members who took part in the study. This is to establish the ideal information needed for the study. The demographic information comprised of their sex, working experience, designation and the departments.Table 1 shows how employees from various departments responded to the study.

Table 1 Respondents by department

Department	No of Respondents	Percentage
Sales and Marketing	15	31.25%
Finance	5	10.42%
HR and Personnel	5	10.42%
Network and IT	3	6.25%
Customer Service	19	39.58%
Legal and Public Relations	1	2.08%
Total	**48**	**100.00%**

Source: Research Data.

According to table 4.1, the majority of staff who participated in the study were from customer service 19(39.58%), while legal and public relations department had the least number of respondents 1(2.08%). From the table above, the data indicates that customer service had a majority of respondents (39.58%). This could imply that majority of staff working at Airtel are from customer service and are the most affected by the outsourcing decisions.

Table 2 below show results on data regarding staff from various ranks participated in the study.

Table 2 Respondents by rank

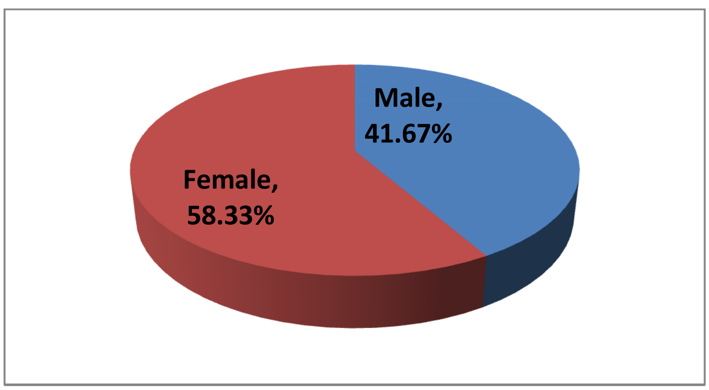
Rank	No of Respondents	Percentage
Directors or Senior Management	1	2.08%
Middle Level Management	3	6.25%
Lower Level Management	7	14.58%
Intermediate Level Officer	8	16.67%
Entry Level Officer	29	60.42%
Total	**48**	**100.00%**

Source: Research data.

Data regarding the ranks of various staff members who took part in the study was sought in order to know how respondents from each rank participated in the study. From the above table 2, it can be seen that on overwhelming majority of staff members who participated in this study were entry level officers (60.42%). The directors or members from senior management had the least participation at 2.08%. The reason for this could be that entry level officers are found in high numbers more than any rank at Airtel.

The researcher was also interested in knowing the gender information of staff members so as to indicate the level of participation of both male and female respondents in the research study. The researcher wanted to get a clear picture of the percentage of male and female staff members who took part in the study. This better illustrated in Figure 1 below.

Figure 1 Gender



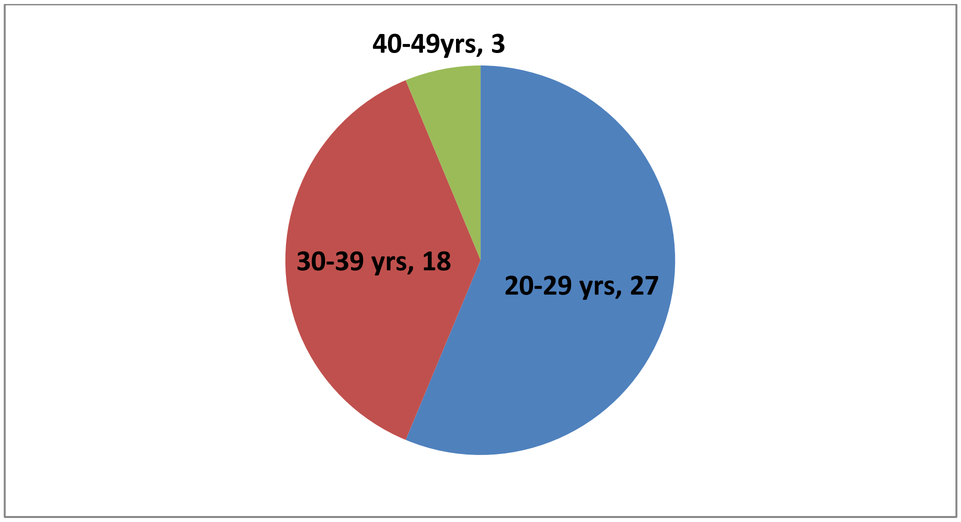
Source: Research data

According to figure 1, out of the staff members who took part in the study, slightly more than half of them 58.33% were female while the remaining 41.67% were male. This indicates that more female staff members participated in the study.

The researcheralsosought to know from which age group the staff members were from. The group was put in a gap of ten years. The most dominant age was that of 20-29 years old (27).

This was followed by that of 30-39 years old (18) then 40-49years old (3). This data is illustrated in figure 2 below.

Figure 2Age group of respondents



Source: Research data.

4.2.2 Impact of Outsourcing

Below is the outcome of the second part of the questionnaire on the impact of outsourcing on performance. The three main areas target were benefits, risks and measures to guard against the impact of risks of outsourcing.

4.2.2.1 Benefits of outsourcing.

The researcher wanted to know the extent to which Airtel is enjoying benefits of outsourcing. The benefits included;focus attention on those core activities, gain access to world-class capabilities, free internal resources for other purposes, control functions that are difficult to manage or out of control, reduce and controls operating costs by taking advantage of outsourcerôs economies of scale, helps with organizational changes and builds new infrastructures, access to skills and new technologies and faster reaction to changing market conditions.

From the research findings 17% respondents totally agreed thatoutsourcing has enabled Airtel free internal resources for other purposes. 10% also totally agreed that outsourcing Reduces and controls operating costs by taking advantage of outsourcerôs economies of scale. A further 8%, totally agreed that outsourcing has enabled Airtel improve company focus. 21% of the respondents agreed that outsourcing has helped Airtel gain access to world-class capabilities. This was also supported by 17% who agreed that outsourcing has helped Airtel control functions that are difficult to manage or out of control. This is evident from the table below.

Table 3 Benefits of outsourcing.

	Benefits of outsourcing							
		Degree of Realization						
	Drivers and Benefits		**1 Totally Agree**	**2 Agree**	**3 Undecided**	**4 Disagree**	**5 Totally disagree**	**Total**
1	***Strategic Reasons***							
a)	Outsourcing has enabled Airtel Improve company focus;i.e focus attention on those core activities	Frequency	4	17	7	12	8	**48**
		Percentage	8%	35%	15%	25%	17%	**100%**
b)	Outsourcing has helped Airtel gain access to world-class capabilities	Frequency	1	10	3	22	12	**48**
		Percentage	2%	21%	6%	46%	25%	**100%**
c)	Outsourcing has enabled Airtel free internal resources for other purposes	Frequency	8	13	2	15	10	**48**
		Percentage	17%	27%	4%	31%	21%	**100%**

2	***Tactical Reasons***							
d)	Outsourcing has helped Airtel control functions that are difficult to manage or out of control	Frequency	1	8	1	28	10	**48**
		Percentage	2%	17%	2%	58%	21%	**100%**
e)	Outsourcing Reduces and controls operating costs by taking advantage of outsourcerôs economies of scale	Frequency	5	9	2	24	8	**48**
		Percentage	10%	19%	4%	50%	17%	**100%**
3	***Additional Factors***							
f)	Outsourcing has helped Airtel with organizational changes and build new infrastructures	Frequency	1	5	3	33	6	**48**
		Percentage	2%	10%	6%	69%	13%	**100%**
g)	Outsourcing has helped Airtel increase access to skills and new technologies	Frequency	2	7	1	35	3	**48**
		Percentage	4%	15%	2%	73%	6%	**100%**
h)	There is Greater flexibility; able to react faster to changing market conditions, fluctuating demand cycles, and increased competition	Frequency	1	4	2	30	11	**48**
		Percentage	2%	8%	4%	63%	23%	**100%**

Source: Research data.

The outsourced components were correlated in a correlation matrix with benefits of outsourcing benefits components as shown in the table below. The researcher established that the outsourced components were positively correlated to benefits of outsourcing. On average, the correlation co-efficient (r) is 0.81 which implies coefficient of determination (r^2) is 65.6%. Therefore 65.6% change in performance can be explained by outsourcing.

Table 4 Correlation Matrix

	core activities	*access capabilities*	*free internal resources*	*control functions*	*Reduces costs*	*organizational changes*	*increase access to skills*	*There is Greater flexibility*
core activities	1.0000	0.8236	0.9463	0.7691	0.8477	0.6935	0.6615	0.7620
access capabilities	0.8236	1.0000	0.8656	0.9158	0.9366	0.8095	0.8398	0.8270
free internal resources	0.9463	0.8656	1.0000	0.8276	0.8689	0.7244	0.7212	0.7702
control functions	0.7691	0.9158	0.8276	1.0000	0.8677	0.9089	0.9308	0.8869
Reduces costs	0.8477	0.9366	0.8689	0.8677	1.0000	0.8178	0.8186	0.8183
organizational changes	0.6935	0.8095	0.7244	0.9089	0.8178	1.0000	0.9290	0.9000
increase access to skills	0.6615	0.8398	0.7212	0.9308	0.8186	0.9290	1.0000	0.8211
There is Greater flexibility	0.7620	0.8270	0.7702	0.8869	0.8183	0.9000	0.8211	1.0000

Source: Research data.

4.2.2.2 Risks associated with outsourcing.

The researcher sought to know the opinion of respondents on the risks of outsourcing. The risks were; loss of control of strategy, loss of in-house expertise, Loss of intellectual capital, Loss of flexibility and increased dependency on outsourcer, negative impact on employee morale/possible opposition from employee, affects the speed of implementation and maintenance of systems, qualification of outsourcerǿs employees not up to expectations, There are hidden costs in the contract, outsourcing has led to Increased costs, the outsourcing decision is hard to reverse and operations are poorly set-up.

23% of the respondents totally agree that outsourcing has negative impact on employee morale/possible opposition from employee and that there are hidden costs in the contract. The results of the way the staff members responded to various items are summarized in Table 5 below.

Table 5 Risks Associated with outsourcing

Occurrence		Risk Level					
		1 Totally Agree	2 Agree	3 No comment	4 Disagree	5 Totally disagree	Total
Outsourcing has led to Loss of control of strategy on outsourced activities	Frequency	7	20	2	17	2	**48**
	Percentage	15%	42%	4%	35%	4%	**100%**
Outsourcing has led to Loss of in-house expertise	Frequency	2	18	1	25	2	**48**
	Percentage	4%	38%	2%	52%	4%	**100%**
Outsourcing leads to Loss of intellectual capital; loss of knowledge and capability due to the loss of experienced personnel	Frequency	0	20	1	27	0	**48**
	Percentage	0%	42%	2%	56%	0%	**100%**
Outsourcing has led to Loss of flexibility and increased Dependency on outsourcer	Frequency	4	28	3	11	2	**48**
	Percentage	8%	58%	6%	23%	4%	**100%**
Outsourcing has Negative impact on employee morale/possible opposition from employee	Frequency	11	29	1	6	1	**48**
	Percentage	23%	60%	2%	13%	2%	**100%**
Outsourcing affects the speed of Implementation and maintenance of systems	Frequency	9	27	3	7	2	**48**
	Percentage	19%	56%	6%	15%	4%	**100%**
The Qualification of outsourcerõs employees not up to expectations	Frequency	6	19	1	14	8	**48**
	Percentage	13%	40%	2%	29%	17%	**100%**
There are Hidden costs in the contract	Frequency	11	27	1	6	3	**48**
	Percentage	23%	56%	2%	13%	6%	**100%**
Outsourcing has led to Increased costs; i.e. higher	Frequency	6	16	3	20	3	**48**
	Percentage	13%	33%	6%	42%	6%	**100%**

costs in the long run are expected							
The outsourcing decision is hard to reverse.	Frequency	1	11	2	30	4	**48**
	Percentage	2%	23%	4%	63%	8%	**100%**
Operations are poorly set-up. Duties and responsibilities not clearly spelt	Frequency	4	19	3	21	1	**48**
	Percentage	8%	40%	6%	44%	2%	**100%**

Source: Research data

4.2.2.3 Factors affecting the success of outsourcing

The researcher also sought to know from the respondents how various factors should be treated before engaging in outsourcing contract. The factors and response rates both in frequency and percentage are presented in the table below.

Table 6 Factors affecting the success of outsourcing

Factors affecting the success of Outsourcing		**Importance**					
		1 Totally agree	**2 Agree**	**3 Neutral**	**4 Disagree**	**5 Totally disagree**	**Total**
Airtel needs to Conduct needs analysis prior to making the outsourcing decision.	Frequency	9	30	1	6	2	**48**
	Percentage	19%	63%	2%	13%	4%	**100%**
There should be Clearly defined terms and conditions in the outsourcing contract.	Frequency	17	30		1		**48**
	Percentage	35%	63%	0%	2%	0%	**100%**
Airtel should have a strategic vision and plan, and totally understand the intended use of outsourcing.	Frequency	31	17				**48**
	Percentage	65%	35%	0%	0%	0%	**100%**
Airtel should make sure that the Outsourcer fully understands the organizationôs goals and objective.	Frequency	15	20	2	10	1	**48**
	Percentage	31%	42%	4%	21%	2%	**100%**

Airtel should conduct due diligence to Select the right outsourcer.	Frequency	40	8				**48**
	Percentage	83%	17%	0%	0%	0%	**100%**
There should always be an Ongoing management of the relationships and communication.	Frequency	20	25	2	1		**48**
	Percentage	42%	52%	4%	2%	0%	**100%**
There should be a Properly drawn up contract.	Frequency	48					**48**
	Percentage	100%	0%	0%	0%	0%	**100%**
The Outsourcer should have attained some form of certification such as ISO 9001.	Frequency	13	22		11	2	**48**
	Percentage	27%	46%	0%	23%	4%	**100%**
Airtelôs Top managementôs should always support and be involved outsourced activities.	Frequency	15	23	2	8		**48**
	Percentage	31%	48%	4%	17%	0%	**100%**
Airtel should give Careful attention to the personnel issues and conducting open communication with the affected individual/groups	Frequency	20	22	1	5		**48**
	Percentage	42%	46%	2%	10%	0%	**100%**
Airtel should have well trained and skilled in-house personnel to deal with the external expertise.	Frequency	6	25	2	13	2	**48**
	Percentage	13%	52%	4%	27%	4%	**100%**
The outsourcing deal should have cost reduction goals or financial justification.	Frequency	20	27		1		**48**
	Percentage	42%	56%	0%	2%	0%	**100%**
Airtel should have a procedure to measure the outsourcerôs performance.	Frequency	15	20	3	8	2	**48**
	Percentage	31%	42%	6%	17%	4%	**100%**
The outsourcer is an international company with global reach.	Frequency	6	26	1	13	2	**48**
	Percentage	13%	54%	2%	27%	4%	**100%**
The outsourcer should have a local support office	Frequency	18	30				**48**
	Percentage	38%	63%	0%	0%	0%	**100%**

Source: Research data.

4.3.3 Additional remarks and opinions.

Question 11 sought to find out the overall satisfaction with the performance of the outsourced functions. The result was that 22.92% was satisfied, 8.33% were neutral while the remaining 68.75% were dissatisfied. This represented in the table 7 below

Table 7 Level of satisfaction

Response	Total respondents	Percentage
Satisfied	11	22.92%
Neutral	4	8.33%
Dissatisfied	33	68.75%

Source: Research data.

The last question in the questionnaire is a question that seeks to respondents view if they will recommend outsourcing, the result was that 39 out of the 48respondentsopposed to the adoption of outsourcing representing approximately 81.25% while theremaining9 (approx. 18.75%) respondents agree with the adoption as shown on table 8 below

Table 8 Recommend Outsourcing

Response	Total respondents	Percentage
Yes	9	18.75%
No	39	81.25%

Source: Research data.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

This chapter summarizes the findings and makes conclusions based on the objective of this study i.e. to establish the extent to which outsourcing impacts on the performance of the business.

5.2 Summary

The analysis shows that there are benefits that can be enjoyed from outsourcing. From the research findings respondents totally agreed that outsourcing has enabled Airtel free internal resources for other purposes. They also totally agreed that outsourcing Reduces and controls operating costs by taking advantage of outsourcerœs economies of scale. A further 8%, totally agreed that outsourcing has enabled Airtel improve company focus. 21% of the respondents agreed that outsourcing has helped Airtel gain access to world-class capabilities. This was also supported by 17% who agreed that outsourcing has helped Airtel control functions that are difficult to manage or out of control. Outsourcing was considered to impact on performance. Due to this, a research was carried out to assess the impact of outsourcing on performance. The research also established that there are risks associated with outsourcing and should be taken into consideration before undertaking an outsourcing contract.

This study also determined that there is a positive correlation between outsourcing and performance. This was possible through the use of correlation analysis. The study also established that there are safeguard procedures that can reduce the negative effect of outsourcing if they are taken into consideration before signing of the contract.

5.3 Conclusion

The telecommunication sector has immense potential for outsourcing as it contains non-core business functions or telecommunications services. There are many vendors that can provide these services conveniently. Cost reduction and technological advancement are vital drivers for many outsourcing decisions which equally apply to outsourcing of telecommunications.

Based on the study conducted above, the issues emanating from the research and analysis of the conducted interviews, survey, and outsourcing literatures indicates emphasis on cost reduction as the principal indicator to adopting outsourcing. New technology and expert capabilities are also valuable contributors to cost reduction. Other factors that strengthen top management position towards the adoption of outsourcing are the competitive advantage it presents and facilitates better focus on core business functions.

Outsourcing demands a careful decision and execution process, backed by strong business objectives and strategy to carry it out. This thus makes outsourcing a means of business delivery and not just a goal. This conclusion is founded on the meaning of strategic objectives and with the application of the right and guarantee decision process an appropriate outsourcing model is employed. Furthermore, the execution for outsourcing Service Level Agreement should permit the continuous monitoring of previously agreed success metrics, with possible exit arrangement in place to cater for a situation where all objectives and deliverables are met, or where an early termination of agreement is required.

5.4 Recommendations.

Airtel's management should consider outsourcing as it reduces costs and make it focus on company's strategy. It should not only concentrate on reduction of cost as the main motivator of undertaking but also such other variables such as customer satisfaction and technological transfer that will enhance competitive advantage.

When outsourcing, Airtel should consult other stakeholders to minimize mistakes Committed when engaging in outsourcing contracts

5.5 Suggestions of further study.

The findings of this study should be viewed in light of a few limitations. The use of questionnaire as a tool of data collection should be noted. The findings of this study can be enhanced by use of interviews and observations. In addition, a pragmatic review and analysis could have benefited more by use of internal company documents like board minutes, policies and procedures which could have provided more insight into the operations and strategic thinking of the management. The study is limited to the extent that its focus is on a specific country and industry, Kenya and Airtel Kenya respectively.

An important extension of this study is to replicate this research to other countries, and more importantly conduct comparative country studies. The role of board members in outsourcing needs to be studied. From memory, the board is the key internal governance mechanism, and it would of interest to understand the board-room dynamics in making decisions to outsource of certain operations. Interviewing board members on this vital and emerging practice will provide a rich textual and thematic understanding of boardôs evaluation of risks and benefits as well as prioritization of services to be outsourced

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APPENDICES:

Appendix A: Interview/Questionnaire Covering Letter

Dear Sir/Madam

My name is Oscar UngadiMujumba, a Masterôs student of Business Administration in the School of Business, University Of Nairobi, Kenya conducting a research on impact of outsourcing on performance.

The purpose of the research is to gather data on gains and perils of outsourcing. The study also will attempt to recommend measures that can be taken to curb the effect of the pitfalls.

Below is a questionnaire survey that you shall complete. The questionnaire is brief and will take about fifteen minutes to fill out. Please be assured that all information you provide will be strictly confidential. Any identifying information will not appear on any study report ï all results from this Study will be reported as statistical summaries only.

Your participation represents a valuable contribution to this research, and I thank you again for your cooperation.

Sincerely yours,

OscarMujumba

Appendix B: Questionnaire the impact of outsourcing on business performance-a case of Airtel Networks Kenya ltd

Part 1: Background Profile

1 Which of the following best describes the department you work under? Please check i.e. mark an ôXô) the most appropriate answer.

a) Sales and Marketing ☐
b) Finance ☐
c) Human Resources and personnel Training ☐
d) Network and information technology services ☐
e) Customer Services ☐
f) Legal and Public relations ☐

Others (please specify)

____

2. Which of the following best describe the role you play in your organization? Please check (i.e. mark an ôXô) the most appropriate answer.

a) Directors or Senior Management ☐
b) Middle level Management ☐
c) Lower Level Management ☐
☐

d) Intermediate level officer

e) Entry Level officer

Others (please specify)

____

3. What is the level of your involvement with Outsourcing decisions? Please check (i.e. mark an óXô) all appropriate answer(s).

a) Decision maker

b) Influencer

c) Implementer

d) Personnel affected by outsourcing decisions

e) End users using outsourced services

f) Not Involved

Others (please specify)

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4. Which authority deals with Outsourcing decisions in your organization? Please check (i.e. mark an óXô) all appropriate answer(s).

a) Directors or Senior Management ☐

b) Business Group Managers ☐

c) Business Group Analysts ☐

d) Middle Level Management ☐

e) Lower Level Management ☐

Others (please specify)

____

5. Kindly indicate your Gender,Please check (i.e. mark an óXô) all appropriate answer(s).

Male ☐ Female ☐

6. Which age group from the ones listed below do you fall into?Please check (i.e. mark a óXô) all appropriate answer(s).

a) 20-30 yrs ☐

b) 30-40 yrs ☐

c) 40-50 yrs ☐

d) 59-60 yrs ☐

e) 60-70 yrs ☐

Part 2: Outsourcing

7. Which of these services are currently being outsourced in your organization? Please

☐

check (i.e. mark an ôXö) all appropriate answer(s).

(a) Sales and Marketing ☐

(b) Finance ☐

(c) Human Resources and personnel Training ☐

(d) Network and information technology services ☐

(e) Customer Services ☐

(f) Legal and Public relations

Others (please specify)

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8. Please specify the degree of the Gain that was experienced and realized by outsourcing using the table below: Please check (i.e. mark an ôXö) all appropriate answer(s).

	Drivers and Benefits	Degree of Realization

		1 Totally Agree	2 Agree	3 No comment	4 Disagree	5 Totally disagree
Strategic Reasons						
A	Outsourcing has enabled Airtel Improve company focus;i.e focus attention on those core activities					
B	Outsourcing has helped Airtel gain access to world-class capabilities					
C	Outsourcing has enabled Airtel free internal resources for other purposes					
Tactical Reasons						
E	Outsourcing has helped Airtel control functions that are difficult to manage or out of control					
F	Outsourcing Reduces and controls operating costs by taking advantage of outsourcerʹs economies of scale					
Additional Factors						
G	Outsourcing has helped Airtel with organizational changes and build new infrastructures					
I	Outsourcing has helped Airtel increase access to skills and new technologies					
J	There is Greater flexibility; able to react faster to					

	changing market conditions, fluctuating demand cycles, and increased competition					

Kindly provide any other information or remarks on the gains of outsourcing

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9. For the following pitfalls of outsourcing, specify the risk level of these pitfalls using the following scale: Please check (i.e. mark an ôXö) all appropriate answer(s).

		Risk Level				
	Occurrence	**1 Totally Agree**	**2 Agree**	**3 No comment**	**4 Disagree**	**5 Totally disagree**
	Outsourcing has led to Loss of control of strategy on outsourced activities					
b)	Outsourcing has led to Loss of in-house expertise					
c)	Outsourcing leads to Loss of intellectual capital; loss of knowledge and capability due to the loss of					

	experienced personnel					
d)	Outsourcing has led to Loss of flexibility and increased Dependency on outsourcer					
e)	Outsourcing has Negative impact on employee morale/possible opposition from employee					
f)	Outsourcing affects the speed of Implementation and maintenance of systems					
g)	The Qualification of outsourcerøs employees not up to expectations					
h)	There are Hidden costs in the contract					
i)	Outsourcing has led to Increased costs; i.e. higher costs in the long run are expected					
j)	The outsourcing decision is hard to reverse.					
k)	Operations are poorly set-up. Duties and responsibilities not clearly spelt					

Remarks on the pitfalls of outsourcing,

10. From the following list of strategies that can be adopted to curb pitfalls associated with

outsourcing, Based on your experience(s), assess the importance of the factor in affecting the success of Outsourcing using the following scale: Please check (i.e. mark a ôXö) all appropriate answer(s).

	Factors affecting the success of Outsourcing	**Importance**				
		1 Totally agree	**2 Agree**	**3 Neutral**	**4 Disagree**	**5 Totally disagree**
a)	Airtel needs to Conduct needs analysis prior to making the outsourcing decision.					
b)	There should be Clearly defined terms and conditions in the outsourcing contract.					
c)	Airtel should have a strategic vision and plan, and totally understand the intended use of outsourcing.					
d)	Airtel should make sure that the Outsourcer fully understands the organizationÆs goals and objective.					
e)	Airtel should conduct due diligence to Select the right outsourcer.					
f)	There should always be an Ongoing management of the relationships and					

	communication.					
g)	There should be a Properly drawn up contract.					
h)	The Outsourcer should have attained some form of certification such as ISO 9001.					
i)	Airtelôs Top managementôs should always support and be involved outsourced activities.					
j)	Airtel should give Careful attention to the personnel issues and conducting open communication with the affected individual/groups					
k)	Airtel should have well trained and skilled in-house personnel to deal with the external expertise.					
l)	The outsourcing deal should have cost reduction goals or financial justification.					
m)	Airtel should have a procedure to measure the outsourcerôs performance.					
n)	The outsourcer is an international company with global reach.					
o)	The outsourcer should have a local support office					

11. How satisfied are you with the overall performance/services of the outsourced functions? Please cross out (i.e. mark a óXô in the box) the most appropriate answer.

Very Satisfied	Satisfied	Neutral	Not Satisfied	Very Dissatisfied
☐	☐	☐	☐	☐

12. Would you recommend further outsourcing of other internal functions? Please answer either óYesô or óNoô. Answer:

13. Comments/Suggestions about this survey, or Outsourcing in general.

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Thank you very much for taking time to participate in this survey!!

Appendix C: Airtel departments and sections

Department	**Section**	**Vendor**
Sales and Marketing	Products and services	
	Distribution	
	Corporate sales	
	SME	
	Media and Advertising	Oglivy Marketing
	VIP and Platinum	
Finance	Treasury	
	Auditing and Tax	DCDM Consulting
	Budgeting	
	Collections	Standard chartered bank
	Revenue Assurance	
	Airtel Money	
General Administration, Human Resources and personnel training	Recruitment and training	Centum
	Security and maintanance	Creative cleaning, Lavington security
	Benefits and compensation	Delloite and touché,
	Risk and Fraud	
Network and information	Network	KDN, ACCESS,

technology services		Ericsson, Nokia Siemens Network
	IT	IBM
	Facilities and maintenance	Transami
	Procurement and supllies	
Customer Services	Showrooms	Sheer logic
	Inbound	Spanco
	Outbound	Spanco
	Back office	IBM
	Retention and churn	IBM
	Roaming	
	Credit control	
Legal and Public relations	Legal, PR and CSR	