STRATEGIES ADOPTED BY GLAXOSMITHKLINE IN MANAGING OUTSOURCED SERVICES

BY

SIMION OMAIKO MOMANYI

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

NOVEMBER 2011

DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

Signed:.. Date 07-11-2011

NAME: Simon Omaiko Momanyi

REG. NO: ID: D61/70924/08

This project has been presented for examination with my approval as the University supervisor.

Signed:..Date 07-11-2011

for Dr James Gathungu

Lecturer, Department of Business Administration,

School of Business

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENT

I wish to acknowledge individuals who supported me throughout the period of this project.

My supervisor, Dr James Gathungu, thank you for your tireless efforts in guiding me to give the very best. Thank you for your patience and for always making time.

Many thanks to my entire family, your moral support made a difference.

Greatest thanks to God Almighty, the Author of Life.

DEDICATION

To my wife Jackline and my children, Stacey and Hazael Omaiko

ABSTRACT

Outsourcing has become a common practice among both private and public organizations and is a major element in business strategy in the 21^{st} century. This study sought to find out the strategies adopted by GlaxoSmithKline in managing outsourcing relationship. The study was guided by the following objectives: to identify the main motives for starting an outsourcing relationship; to identify the benefits of an outsourcing relationship and to establish the factors that influences the management of the outsourcing relationship by the client organization.

The study adopted a case study methodology. 28 respondents were targeted, 22 of them responded translating to a response rate of 78.5%. SPSS was used to analyze the data. The results are displayed in form of tables.

Cost effectiveness of the outsourcing decision is a key factor to be considered before outsourcing. From the research findings it is evident that cost saving on overheads and concentration on core business activities was the most motivating factor. Overall, from the study the company has accrued both direct financial gains as well as non-financial gains. As a result of outsourcing, management has directed focus on core business activities. However, the organization has not attained maximum value for money given the result finding of low quality and lack of timeliness in service delivery.

On strategies of managing outsourcing relationship, clear service level agreements with vendors, appoint in house managers to hold regular meeting with vendors and instituting flexible contracts were cited as the key strategies. In future outsourcing activities, the organization should carefully select vendors who have technical capability to perform expected tasks. Organizations should ensure that outsourcing aligns with the overall corporate strategy.

Cost benefit analysis should always be done to evaluate the real value to be anticipated from service outsourcing. Research established that organization will benefit from setting out clear service level agreements with suppliers as well as appointing in house managers to be in charge of service providers and monitor their progress. This is practical to implement during fresh bids as well as during contract renewal. Existing department in charge of suppliers can be broadened to accommodate auxiliary service outsourcing.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Global competition has forced businesses to cut back on operations by reorganizing their business norms through downsizing, restructuring or reengineering, as well as contracting out various functions and tasks with the aim of focussing on the core business. Commonly known as outsourcing, this particular business trend had started in the manufacturing business in the early 1980s, mainly as a means of cutting back staff and savings on wages. Krajewski and Ritzman (2002) define outsourcing as the allotment of work to suppliers and distributors to provide needed services and materials to perform those processes that the organizations do not perform themselves. While such a definition is easy to comprehend, knowing when and how to outsource is much more complex. Modern businesses must consider several factors when thinking about outsourcing. Not only do they have to consider functions that are traditionally outsourced but also the rapid evolution of information technology (IT) requirements.

The great Industrial Revolution between 1750 and 1900 that took place in Europe provided much impetus to the development of outsourcing. This period saw a manifold increase in the production of goods; widened markets for them and soaring profits were like never before. It is during this period that many companies began to outsource such activities like accounting, insurance, engineering, legal needs among others to specialized firms in an effort to reduce costs (Jackson, 2009). These firms were within the country and not offshore. Europe followed Americans in reducing costs through outsourcing costs like software programming, developing and web developing projects to India.

Outsourcing gained further prominence in the 1990's (Leenders, Fearson, Flynn, Johnson 2002), and has become more than a trend in the corporate world. An overwhelming number of companies already outsource, it has become for all practical purposes a necessity (Muscato, 1998). The momentum has been fast tracked by a rapidly changing business environment, competition, a record numbers of mergers and acquisitions, consolidations, powerful new technologies, declining barriers to trade and globalization. As a result firms are under extreme pressure to find ways to adapt and capitalize on changes in order to survive and prosper over long term.

Often a task is considered for outsourcing if the work performed by a consultant would require hiring additional staff if it were done in-house (Ryans, 1996). Moreover, work-handled by a former employee who may perform a specific service is also considered as outsourcing. The term outsourcing may be new to the business; however, the practice of it is not (Hormozi et al. 2003). Historically, numerous businesses have enlisted the help of outside experts to assist with tasks too cumbersome to complete in-house. Legal and financial experts, along with countless other specialists, have long been called on to assist businesses in areas outside their core competencies. Jones (2000) notes that outsourcing has been a common term for approximately 20 years.

1.1.1 The Concept of Outsourcing

Outsourcing has been defined by Chase, Jacobs and Aquilano (2004, p. 372) as an "act of moving some of a firm's internal activities and decision responsibilities to outside providers". According to Leenders et al. (2002), outsourcing is basically a reversal of previous make decision, that is, a company whose employees clean the building may decide to hire an outside janitorial firm to provide this service. In the urge to right size and eliminate headquarter staff, to focus on value added activities and core competencies and to survive and prosper, private organizations have outsourced an extremely broad range of functions and activities formerly performed in-house. Some activities such as janitorial, food, and security services have been outsourced for many years. Other outsourced activities range from manufactured parts to services such as payroll, human resources, accounting, and professional jobs in the area of high technology, office support, computers, business management and architecture (Mangan, 2004).

The goal of companies that aggressively outsource most functions is to enhance competitiveness by achieving a higher return on assets through less capital commitment and increasing the ability to adjust quickly to a changing environment through less commitment to in-house resources (Gupta, 2000). The decision of businesses to outsource is mainly based on cost, set-up time and the availability of the expertise. The most common reasons for outsourcing are the needs for expertise, that is due to lack of learning curve and re-creating; manpower, for having not enough staff; time requirements, because of the limited time available to accomplish the job; needed for economics, owing an overall cost savings; shifting of responsibility as for deniability; and removing of stumbling blocks in keeping the work flowing.

Golhar and Deshpande (2009) suggest that improved productivity achieved through outsourcing is assumed to contribute to the financial strength of a firm and make it globally competitive. It allows firms to offer products or services to their customers faster cheaper and better. For example, delta airlines outsourcing activities resulted in $25 million savings in 2003 (Weidenbaum, 2005). Some firms have taken a long-term approach by outsourcing non-essential work to free up resources and time to focus on areas of core competencies and of competitive advantage (Chamberland, 2003). The underlying assumption being that outsourcing will make a firm financially strong.

Johnston and Clark (2005) are of the opinion that organizations outsource to specialist companies who can manage the operations more effectively and efficiently, who have built upon a particular expertise and repositioned themselves to provide a package or solution for their customer. Further, they point out that a key reason for the effectiveness of the outsourcers is that they can offer the benefits of economies of scale that provide opportunities for operational effectiveness. It enables the company sharpen its business acumen, focus on core competencies and pursue growth and expansion.

Hill (2000) outlines the benefits of outsourcing to include: freed resources, reduced operating costs, ease of cost control, improved service provision and specification, access to world class capabilities and increased focus on own core tasks. On the flip side, there are disadvantages related to outsourcing, the organization may lose control of important capabilities, irreversibility of the outsourcing decision may adversely affect the firm, and the required skills to manage outsourced services are different and more demanding than managing in-house operation process.

In his book, "The Outsourcing Revolution", author Michael Corbett (2004) discusses the challenges of integrating two separate business entities (the client and external service provider) across different organizational boundaries and differing motivations and objectives. In their article, "Leading Laterally in Company Outsourcing", authors Useem & Harder (2000), observe that as service and product outsourcing become more commonplace, new organizational forms are emerging to facilitate these relationship. A case in point is Chase bank that created "shared services" units that compete with outside vendors to furnish services to the bank's own operating unit. Delta airlines also established a "business partners" units to oversee its relations with some 250 vendors and 2,600 contracts for ground crew and customers services at 186 airports around the world. Microsoft outsources various activities from the manufacturing of its computer software to the distribution of its software products, freeing the organization to focus on its primary area of competitive advantage: the writing of software code. Still other firms are creating "strategic service" divisions in which activities formerly decentralized into autonomous business units are now being recentralized for outside contracting. As these various approaches suggest, the best ways to structure outsourcing remain the subject of ongoing management debate and media coverage.

The authors recommend four individual capabilities required of managers as outsourcing becomes commonplace: (a) Strategic thinking: Managers must strive to understand whether and how to outsource in ways that improve competitive advantage. (b) Deal making: Outsourcing process managers must broker deals in two directions simultaneously to secure the right services from external providers and to ensure their use by internal managers. (c) Partnership governing: After identifying areas suitable for outsourcing through strategic assessment and upon clinching a deal, effectively overseeing the relationship is essential. (d) Managing change: Forcefully spearheading change is critical because companies are certain to encounter employee resistance. Their analysis concluded that effective oversight of outsourcing requires a comprehensive combination of all four qualities.

1.1.2 Outsourcing in the pharmaceutical Industry

According to Business Insights (2005) several studies show that the total revenues of contract manufacturers in the pharmaceutical industry rise on average by approximately 13 percent per year, which shows that outsourcing is increasing in this industry (Business Insights, 2005). Furthermore, Lurquin (1996) already noticed that supply chain optimization is one of the strategic issues that the pharmaceutical industry will face in the coming years and Shah (2004) also remarked that optimal operational planning is a major research theme in the pharmaceutical industry and it did not receive due attention. He shows that the use of contract manufacturers forms a source of complexity, as it extends the supply chain coordination problems.

Most, if not all, major pharmaceutical companies have outsourced, or are evaluating the benefits of outsourcing, one or more of their noncore business functions to a third-party service provider. Over the last five years, pharmaceutical companies have primarily been outsourcing all or part of their back-office information technology (IT) infrastructure, such as the mainframe, midrange, desktop, or application maintenance functions. Recently, however, pharmaceutical companies have become more and more innovative in the types of business functions that they consider ripe for outsourcing. Functions that are being considered include human resources (operations or payroll), financial transaction processing (particularly accounts payable), procurement, distribution and logistics, and clinical data management (lewis, 2006).

1.1.3 Outsourcing in GlaxoSmithKline

GlaxoSmithkline is a major global pharmaceutical company engaged in the creation and discovery, development, manufacturing and marketing of pharmaceutical products including vaccines, over – the – counter (OTC) medicines and health – related consumer products. GlaxoSmithkline's focus is toward developing products targeted for the central nervous system disorders, respiratory, anti-bacterials, anti-virals , metabolic and gastrointestinal , vaccines , oncology and emisis, cardiovascular, and arthritis. Every minute more than 1000 prescriptions are written for GlaxoSmithkline drugs and over 2000 doses of vaccines are delivered. Its factories produce nine billion Tums indigestion tablets a year, six billion painkiller tablets and 600million tubes of toothpaste (GlaxoSmithKline, Products, 2002). It is in view of this that the organization has seen need to outsource some of its functions so as to focus on the organization's core activities.

GlaxoSmithKline has globally embraced outsourcing in all its operating sites. The organization's view on outsourcing is well captured in an article entitled ' Information for Global Finance employees' issued in January 2011, which stated as follows: outsourcing is one of our potential options for ongoing cost effective management of appropriate elements of our operation, particularly in shared service areas. Where appropriate, global as well as in-country shared service centres for standard, repeatable, transactional activities will be considered. In-country shared-service centres will provide support across BUs (Pharma, CH, R&D, GMS). Some transactional activity will be considered for outsourcing to our current global outsource partner (Genpact) where appropriate. This may include Order-to-Cash, Purchase-to Pay and Record-to-Report activities and potentially Tax Data Analysis where feasible.

In Kenya GlaxoSmithKline conducts its manufacturing operations at its Likoni Site situated at Industrial area. There have been major outsourcing activities going on at this site which have included the outsourcing of its Catering services, Information technology, Sanitary services (Cleaning), all of which are the major focus for this research.

1.2 Research Problem

Outsourcing has become a common practice among both private and public organizations and is a major element in business strategy in the 21st century. Useem and Harder (2000) in their study compare picking an outsourcing vendor to choosing a marriage partner since the decision can be extremely fateful, though vendor relationship is shorter and vows narrower. Selecting a wrong vendor therefore can be akin to picking the wrong spouse and almost dooms you from the beginning. The success or failure of an outsourcing engagement is not guaranteed on the day the contract is signed, the contract's value is at stake if outsourcing governance is not managed well. In addition, effective deal making involves securing buy-in from reluctant users, establishing the correct terms in the contract and adept governing of the partnership contract. Without the appropriate management by the client organization, it is difficult for the service provider to provide suitable services fulfilling the expectations.

GlaxoSmithKline has in the recent past embarked in outsourcing most of the functions that are deemed to be non- core to the business. The organization is in the process of outsourcing more other functions with the Customer service function being the one currently identified for outsourcing. It's therefore important that the organization's management gets to understand what are the critical factors that will enhance the success of this process of outsourcing.

There are quite a number of studies that have been done on outsourcing. Makhino (2006) carried out a study on benefits and challenges of outsourcing human resource activities: A survey of commercial banks in Nairobi, Kenya. She found out that majority of commercial banks in Nairobi, Kenya outsource at least one or more human resource activities. Her study further indicated that these banks have benefited from the practice though there are challenges in human resource such as increased use of non-employees who jeopardize the confidentiality policy of banks. Kanyi (2008) did a study on factors that influence human resource outsourcing decisions by government technical training institutions in Nairobi, Kenya. Kanyi found out that most government technical training institutions in Nairobi outsource human resource activities to a moderate extent and are driven by factors such as need to improve their focus, need to reduce operating costs and increase efficiency among others.

Kamau (2010) did a study on employee perception of the outsourcing strategy at the Kenya Power and Lighting Company Limited (KPLC). The study established that majority of the employees in the organization did not trust the services offered by the outsourcing companies. Further Kamuri (2010) carried out a study on the challenges facing the implementation of outsourcing strategy at the Kenyatta National Hospital (KNH). The study findings established that among the major challenges to outsourcing strategy and implementation, the government policies was leading as the main inhibitor of outsourcing followed by organizational culture among others.

All the aforementioned studies were carried out at different times and in different research contexts. They have majorly focussed on various areas of service outsourcing and thus none of them focussed on outsourced service relationship management. This is therefore a clear indication of a research gap that exists that this study is currently addressing. This research therefore focuses on the management of the outsourcing relationship in the operational phase. The study endeavours to answer the following research questions: What are the main motives for starting an outsourcing relationship; the main risks of an outsourcing relationship; factors that influence the management of the outsourcing relationship by the client organization and; how does management of the outsourcing relationship by the client organization influence the success of an outsourcing relationship?

1.3 Research Objectives

i. To identify the main motives for starting an outsourcing relationship.

ii. To identify the benefits of an outsourcing relationship.

iii. To establish the factors that influences the management of the outsourcing relationship by the client organization.

1.4Value of the study

The study will generally contribute to the body of knowledge by filling the research gap regarding managing outsourcing relationships adopted by GlaxoSmithKline. The study will also contribute to strategic management knowledge for use by academicians, scholars and researchers as a point of reference. The study will provide opportunities for further research especially in the context of outsourcing in the pharmaceutical industry.

The management of GlaxoSmithKline will have at their disposal recommendations on what strategies they can employ to achieve one of the organizations objectives, amazing relationships with all stakeholders including service providers. Specifically, the Human Resources Department in charge of facilities management and the Procurement Department in charge of purchasing and supply chain management will gain from the research findings and recommendations. Moreover the staff of GlaxoSmithKline will benefit greatly as they are the primary recipients of the outsourced auxiliary services (cleaning and catering) that are the focus of this study.

The service providers themselves will benefit by getting to understand in detail the needs of their customers and having clear and achievable service level agreements (SLAs). The contracted employees will benefit if the service provider takes note of the findings and conclusions of this study. In addition, this study will identify strategies that will enhance a greater working relationship between the organization and the service provider. This study will be of immense value to the BPO industry as it will provide insightful information on what is expected by their growing clientele within Kenya and what they can do to improve the stakeholder relationships.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature available on the factors affecting the outsourcing decision, impact of outsourcing and strategies for managing outsourcing relationship based on the research questions and will critique in detail studies by various scholars and researchers.

2.2 The Concept of Outsourcing

Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Due to widespread outsourcing practices, it has become a frequent topic in the literature. Numerous reasons why outsourcing is initiated have been identified by researchers. Werle and Isinga (2000) argue that outsourcing is motivated by growing pressures on management to remain competitive by accomplishing more with fewer resources at a faster pace. They further argue that competitive pressure is a constant driver to increase efficiency. Basle Committee (2005) on the other hand indicates that outsourcing is increasingly being used as a means of both reducing costs and achieving strategic goals. Consequently, organizations have been, or are being, restructured, downsized, and reengineered in a relentless attempt to achieve a state of efficiency, effectiveness, and agility expected to deliver increased productivity.

Much of the literature identifies the desire to save costs as an explanation for why outsourcing occurs (Arnold, 2000; Bienstock and Mentzer, 1999; Fan, 2000; Laarhoven, Berglund and Peters, 2000; Willcocks, Lacity, and Fitzgerald, 1995). In theory, outsourcing for cost reasons can occur when suppliers' costs are low enough that even with added overhead, profit, and transaction costs suppliers can still deliver a service for a lower price

(Bers, 1992; Harler, 2000). Therefore, one of the key motivations for outsourcing certain aspects of business activities is to save on cost reduction associated with this practice. In this regard, Kakumanu and Portanova (2006) note; "the main driver in outsourcing is often cost reduction"(p.2). In an empirical study of outsourcing by UK firms, Girma and Gorg (2006) concluded that; "high wages are positively related to outsourcing, suggesting that the cost-saving motive is important" (p.817).

Researchers have argued that the search for greater efficiency, leading to increased specialization, coupled with attempting to achieve other value adding objectives, highlights a fundamental issue for businesses, that of determining what is core, whilst those processes and activities that are considered to be more peripheral can be passed over to an external service provider (Peisch, 1995; Mullin, 1996). However, other researchers consider that what is core is an academic debate, as outsourcing decisions should be driven by the nature of the sourcing contracts, and the contractual and informal relationships between the purchaser and supplier (Kakabadse and Kakabadse,2002).

A PriceWaterhouseCoopers (1999) study established that outsourcing has moved from efficiently attending to a single function process or activity, to reconfiguring whole processes in order to realize greater value across the enterprise. In effect, the current trend is from outsourcing parts, facilities and components, towards outsourcing value adding systems and activities, such as customer response handling, procurement and management. Daimler–Chrysler, for example, outsourced the management of its supplier relationship portfolio to Andersen Consulting, for the production of the "smart car" in France (Chalos and Sung, 1998).

There are several factors to consider before making outsourcing decision. Firms consider several financial and non-financial factors when making the outsourcing decision including: core versus non-core tasks/ functions, qualification of potential suppliers including hard and soft factors. Hard factors include quality, delivery, cost, safety, continuing improvement, financial and management stability and technological accomplishment. Soft factors, which are also important, consist of congruence of management values on issues like customer satisfaction, concern for quality, employee involvement, supplier relationship and personal compatibility between functional counterparts (Leenders et al, 2002).

Burt (2000) argues that the goal of companies that aggressively outsource functions is to enhance competitiveness by achieving a higher return on assets through less capital commitment and increasing the ability to adjust quickly to a changing environment through less commitment to in-house resources. Therefore to do more with less, a company must focus its limited resources on those activities that are essential to its survival and must leverage activities that are peripheral.

Their contemporary, Mclvor (2000), adds his voice by claiming that outsourcing decisions are made most frequently by default, with little consideration for the long-run competitiveness of the firm. For that reason before making the 'buy' decision, the firm should ensure that the outsourcing concept is aligned to the business strategy of the firm; the management should clarify the core capabilities and competencies; identify strategic gaps and specific strategies for cost saving and asset shedding; and lastly recognize the firm's significant dependencies and vulnerabilities, (Insinga and Werle, 2000). Management should therefore employ a methodology before outsourcing that provides a thorough and systematic review of the firm's functions and operations to establish a strong and strategic basis for outsourcing.

Insinga and Werle (2000) offer a technique that firms could use in deciding whether an activity is core or non-core, a vertical scale that separates activities into four major activities namely: i) key activities that provide the firm with sustainable competitive advantage in the market place; ii) emerging activities that have potential to be sources of sustainable competitive advantage; iii) basic activities required simply to be a player in the market but are not significant sources of competitive advantage; iv) commodity activities readily available in the market place and cannot be sources of competitive advantage. In general, key activities need to be done in-house and the rest are candidates for some form of external relationship like outsourcing. In addition, a firm needs to complete the assessment by considering its ability to perform the activity.

Barthelemy (2003) asserts that selecting a good vendor is crucial for successful outsourcing. While most firms outsource to specialist vendors with an aim of cost reduction, firms should not necessarily outsource to cut costs. Numerous criteria exist for vendor selection including hard qualification factors that encompass the ability of the vendor to provide low cost and state-of-art-solutions, their business experience and financial strength. Soft qualification factors are attitudinal, may be non-verifiable and variable. They include a good cultural fit, commitment to continuous improvement, flexibility and loyalty in developing long-term relationship with the firm. Trust is an important ingredient here and has been credited with most successful outsourcing relationships. Managers should therefore consider the vendor's reputation before entering into any outsourcing relationship. These considerations were re-emphasized by Beasly, Bradford and Pagach (2004), in that selecting a wrong vendor can increase operational risk through slow or difficult transition from internal to external operations.

Berrios (2006) asserts that lack of competitive bidding in vendor selection, can force a firm to assume more of the risk and lack efficiency in monitoring and overseeing the contractor.

Contracts should not, therefore, be awarded on preferential treatment but to the bidder providing the best value to the firm, taking into consideration technical excellence, management capability and professional experience. Additionally, the firm should be interested in the vendor's values and philosophy especially in regard to the vendor's employees. Some of the issues of concern include the value placed on employees and the average length of employment of the staff as this will impact service delivery cites Stone (2004).

According to Beasly et al (2004), some of the risks that management should consider are strategic/market risk, operational risk, financial risk, human capital risk and reputation risk. These risks should be considered collectively as occurrence of one can exponentially increase the firm's risk. Hood and Young (2003) provide some of the possible areas of risk that management should look out for before outsourcing. These include: losing control over outsourced function, increasing the length of the supply chain, defining what represents best value, discerning the supplier's ability to meet required service standards, understanding the supplier's business continuity plans and developing a response plan in the event of contractor failure.

Despite the fact that outsourcing is designed to increase net cash flows, many hidden costs may actually decrease the cash flows if not managed effectively (Beasly et al, 2004). Hidden costs associated with the outsourcing decision include costs of performing vendor due diligence, investigation costs and costs of monitoring performance. These, Barthelemy (2003) states, challenge the rationale for outsourcing. It is paradoxical that they are both necessary and detrimental to the outcome of the outsourcing efforts. Vendor searching, contracting and management costs can easily erode the outsourcing benefits. Considering the potential impact of these costs, it may be worth the additional costs of hiring an outside expert familiar with outsourcing and any potential pitfalls, he advises. Technical experts can develop precise measures and key performance indicators such as service performance level.

Lastly, before signing the outsourcing deal, organizations should consider and plan for an exit strategy that may result from a vendor switch or reintegration of an outsourcing contract. Many managers are reluctant to anticipate the end of an outsourcing contract, points out Barthelemy (2003), which is a grave mistake as sometimes switching of vendors can be achieved with little or no inconvenience especially in cases where the market has a choice of many vendors. Exit strategy should include materials reversibility clauses (option to buy back premises and equipment from the vendor) and human reversibility clauses (option to hire back employees from the vendor). "Absence of such clauses leads to weak power bases for any negotiation with the vendor and makes it difficult to back out of an outsourcing agreement,"(p 94), he cautions.

2.3 Impact of outsourcing on an organization

In his study, author Barthelemy (2003, p87) indicates that 'empirical evidence suggests that carefully crafted outsourcing strategies increase the overall performance of the firm'. While a large number of firms now outsource, outsourcing initiatives do not necessarily fulfil all their expectations. Such failed initiatives are hardly reported since firms are reluctant to publicize them as such information can damage a firm's reputation.

Moreover, although large-scale outsourcing has been a reality for over two decades, and literature has provided ample evidence for its benefits, Bailey (1995) argues that the claimed cost savings should be treated with considerable caution and the implications for quality of service must be introduced with a cost/benefit analysis.

outsourcing and any potential pitfalls, he advises. Technical experts can develop precise measures and key performance indicators such as service performance level.

Lastly, before signing the outsourcing deal, organizations should consider and plan for an exit strategy that may result from a vendor switch or reintegration of an outsourcing contract. Many managers are reluctant to anticipate the end of an outsourcing contract, points out Barthelemy (2003), which is a grave mistake as sometimes switching of vendors can be achieved with little or no inconvenience especially in cases where the market has a choice of many vendors. Exit strategy should include materials reversibility clauses (option to buy back premises and equipment from the vendor) and human reversibility clauses (option to hire back employees from the vendor). "Absence of such clauses leads to weak power bases for any negotiation with the vendor and makes it difficult to back out of an outsourcing agreement,"(p 94), he cautions.

2.3 Impact of outsourcing on an organization

In his study, author Barthelemy (2003, p87) indicates that 'empirical evidence suggests that carefully crafted outsourcing strategies increase the overall performance of the firm'. While a large number of firms now outsource, outsourcing initiatives do not necessarily fulfil all their expectations. Such failed initiatives are hardly reported since firms are reluctant to publicize them as such information can damage a firm's reputation.

Moreover, although large-scale outsourcing has been a reality for over two decades, and literature has provided ample evidence for its benefits, Bailey (1995) argues that the claimed cost savings should be treated with considerable caution and the implications for quality of service must be introduced with a cost/benefit analysis.

The strategic decision to outsource is motivated by the desire to increase profitability, but possibly the real drive for outsourcing is its cumulative effect on a company. Outsourcing not only shifts costs from focal firms to suppliers but also creates economic value within the supply chain enabling a firm to tap into specialized capabilities, (Leiblein, Reuer and Dalsace, 2002).

Hill (2000) concurs and states that economic value is created in various ways through freed resources, reduced operating costs and cost control. The firm has at its disposal available funds for use elsewhere in the business. Bettis, Bradley, Hamel (1992) affirm that an important key to sustaining competitive advantage in today's global environment is focusing corporate resources on the development and enhancement of core competencies more effectively than competitors.

Singhatiya (2005) offers that in human and financial capital intensive areas, vendors offer organizations economies of scale and flexibility, allowing the shift from fixed to variable costs. X-Selleny (2009) article argues that the most obvious and visible benefit relates cost savings arising from reduced recruiting and training time and costs in addition to other overhead costs like heat, lighting, insurance, pension among others.

On the downside however, economic benefit may come at a cost. According to Hill (2000) outsourcing may limit the firm's control of important capabilities, this is especially so for dimensions such as quality conformance, delivery speed, and delivery reliability. Further, the decision to subcontract is invariably irreversible as management is reluctant to reconsider and change direction on previous outsourcing decisions. Additionally, managing outsourcing relationships requires different and more demanding skills than those to handle in-house operations. According to Lonsdale and Cox (1998) outsourcing can lead loss of internal coherence through fragmentation of long-established and effective systems.

It is evident therefore unless well-managed, the outsourcing decision may wipe off all the benefits created by outsourcing through lost business that may result from poor quality and delivery. Singhatiya (2005) asserts that organizations have begun to recognize the real and inherent costs of outsourcing. Outsourcing can introduce complexity in operation, increase cost and friction in the value chain and often requires senior management attention.

Hood and Young (2003) stress that as a consequence of poor and inadequate monitoring of vendors by the client, firms may incur losses resulting to interruptions to supply, poor quality of supply and confidentiality leaks. Most firms lack the experience required to carry out monitoring, training and supervision of suppliers. According to Singhatiya (2005) service providers and organizations have inherently conflicting objectives, putting at risk the organizations objective for innovation, cost savings and quality. Additionally, service provider's structural advantages do not always translate into cheaper, better and faster services. In the long run the author predicts, organizations that continue to outsource will experience a loss of bargaining power to vendors as the supply side consolidates.

Further, handover of control and knowledge to the vendor creates an ongoing dependency on the vendor, which ultimately shifts power to the vendor and weakens the organization. Singhatiya further points out that long-term contracts and proprietary systems which vendors might lock companies into make it difficult to switch vendors in the future. As a result, firms find themselves locked in contracts with high rates and low-quality delivery.

On other hand however, firm should be cognizant that outsourcing could lead to inefficiency and low morale. Davies, in his article on reducing costs through outsourcing, cautions firms that despite their efforts at communications; current employees of the firm rarely fully understand the outsourcing decision. Apprehension is rampant in such situations as employees fear that their roles will be outsourced next, which can greatly harm performance.

He adds that this may lead to unnecessarily long processes to get simple things done. Gibson (2004) adds that this situation leads to inefficiency and describes it as "sagging productivity" of demoralized organization waiting to be outsourced. He points out that when a firm is in the process of switching to outsourcing, it experiences delays, interim service inefficiencies, and potential risks to the business.

Muscato (1998) proposes that outsourcing enables a firm to act with more flexibility in adjusting to changes in market conditions and demands. This can be through access to latest technologies and tools, which the company would be unable to acquire cost-effectively. Additionally, the organization reduces its capital requirements and mitigates the risk of investing in new technologies. He adds that the firm is advantaged by access to expertise not available in its organization.

X-Sellent (2009) argues that outsourcing enables companies to tap in to and leverage a global knowledgebase having access to world-class capabilities. Many world-class enterprises outsource to gain access to resources not available internally. Additionally, by delegating responsibilities to external service providers, firms are released from handling functions that are difficult to manage and control.

Insinga and Werle (2000) have a different view and caution companies that aggressive outsourcing can cause serious pitfalls in their firms. Though it may seem attractive, the strategic intent of outsourcing may be lost in the day-to-day operations of the business and today's problem-to-problem business environment. Further, they emphasize that outsourcing decisions made at operational level could lead to dependencies that can create unforeseen strategic vulnerabilities. This is especially so in lean operational management structures, whereby implementation is in the hands of semi-autonomous teams that are tightly focused on measureable objectives mostly cost reduction which in turn leads to loss of strategic flexibility.

2.4 Strategies for optimizing outsourcing benefits

Managing and motivating service providers should be an integral role of service managers. This can be achieved through various approaches including providing inspirational leadership, harnessing the power of teams across the organization, clarifying service providers' roles, establishing effective communication, involving employees in performance improvement and encouraging ownership of the process, (Johnston and Clark, 2005).

According to Eger III et al, organizations should consider outsourcing arrangement as a long-term relationship that needs to be managed to be successful which requires a change from the traditional approach of contract management to viewing it as a relationship.

In his study Barthelemy (2003) states that in order to maintain control over outsourced activities, it is crucial for the firm to retain a small group of managers to handle the vendor. These managers should develop the strategy for the outsourced activity and keep it in alignment with overall corporate strategy. Further, though vendor management skills are vital, they must be complemented with technical skills that will enable the manager to assess the vendor's performance. The firm should essentially deploy managers with prior experience in outsourcing and in handling cross-functional teams.

Useem and Harder (2000) in an earlier study observed that managing outsourcing relationships require specific managerial capabilities and those responsible require a new blend of talents. "Rather than issuing orders, managers must concentrate on negotiating results, replacing skill for sending work downward with a talent for arranging work outward", (p 25). In addition, the manager must be equipped with skills for managing change as outsourcing is more often accompanied with employee resistance. This is because; employees widely believe that outsourcing is synonymous with job loss as work is transferred to the outside vendor.

Managers could also manage the outsourcing relationship by facilitating monthly and quarterly meeting to measure performance against such factors as turnaround time, staff feedback on service quality, quality of communications, customer satisfaction and financial impact. (Hood and Young, 2003).

Jones (2000) adds that well managed relationships also have in place a joint management structure that facilitates frequent and easy communication at all levels; provides for joint goal setting meetings and regularly scheduled performance reviews; supports training and education programs to promote better understanding of respective organization's culture, and arranges for reward and recognition to flow directly from the firm to the vendor employees.

In a recent study of the relationship between outsourcing and reduced wages, authors Dube and Kaplan (2010) observe that outsourcing of labor services was associated with lower wages, fewer benefits and lower rates of unionization. The findings of their study concluded that outsourced workers receive lower pay, unionize at substantially lower rates and are paid lower union wage premier. It is therefore not surprising that labor unions are greatly opposed to outsourcing phenomena. Moreover, Useem and Harder (2000), recognize that even among white-collar ranks, resistance to outsourcing runs deep, who, though they may not openly oppose the change, express negativity through passive resistance.

While analyzing reasons why outsourcing endeavors fail, Barthelemy (2003), pointed out one of the reasons is the overlooking of personnel issues. Efficient management of personnel issues is vital as employees generally view outsourcing as an underestimation of their skills. Secrecy in outsourcing feasibility and decision-making makes it very difficult and open communication is the key to managing personnel issues. He advises that even when outsourcing, key employees with firm specific knowledge must be retained and motivated which may mean offering them higher salaries and benefits. Additionally, firms must secure the commitment of employees transferred to the vendor since if high staff turnover is experienced, quality may be compromised. This may require contractually asking the vendor to offer the same pay and benefits to the transferred employees.

Outsourcing of labor intensive tasks has become rampant due to the ongoing globalization according to Locke, Qin and Brause (2007). They further point out that the working conditions for outsourced workers are poorly lit and unsafe, their pay dismal and working hours long which leads to low labor standards. Efforts of global corporations at monitoring to enforce compliance through signing business code of conducts with contractors have not been beneficial. Monitoring, they emphasize, does not lead to remediation in terms of improved working conditions and enforced labor rights but rather the authors advise "a variety of management systems intervention aimed at eliminating the root causes of poor working conditions should be employed" (p 4). This can be achieved by firms providing the supplier with technical and organizational assistance to tackle some of the root causes of poor working conditions.

Part of the make-or-buy decision process includes how best to structure relationships with suppliers. This can be through 'Partnerships', which involves long-term contracts characterized by extensive sharing of information and increased trust. Alternatively the firm can choose to employ 'Ongoing Relationships' with suppliers which involves establishing medium term contracts and developing relations in terms of information sharing and sound management of customers (Hill, 2000).

Regardless of the relationship favored, the firm needs to embed certain specifications in the contracts to ensure provision of good service. "Most people work more effectively when they have a clear understanding of their role, what is expected of them and how they will be assessed", state authors Johnston and Clark, (p234, 2005). This according to the authors can be remedied by employing the use of scripts as a technique of providing both consistency and efficiency in service delivery.

Authors Useem and Harder (2000), state that managers must be clear-minded about how they will judge results; they should have a clear-cut scorecard with detailed metrics of performance and an agreed method for upgrading and evolving metrics over time. This can be achieved through use of Service Level Agreements (SLAs). The three key features in a SLA are: setting a service specification, dealing with routine issues, and the development of the relationship. Service specification will include agreeing and defining: the key dimensions of performance (response time, availability, accuracy); how each dimension will be measured; mutually agreed targets and where responsibility lies for the measurement of each dimension.

Unfortunately for many organizations, SLAs do not generate the real benefits, as they are not correctly designed to capture all dimensions of performance, targets are rarely mutually agreed, there are no procedures to deal with arising problems. In addition there is also lack of commitment of managers from both parties to derive the intended benefits, (Johnston and Clark, 2005).

Some firms spend too little time developing a good contract, observed Barthelemy (2003). Drafting a good contract is always beneficial as it allows partners to set expectations and commit themselves to short term goals. According to him, the contract should be precise, complete, incentive based, balanced and flexible. He advises that firms should spend as much time as possible drafting the contract, as it is an investment whose value becomes apparent if the outsourcing relationship hits a snag.

The firm should consider a suitable type of contract. Berrios (2006) provides two types of contract: sealed bidding and negotiated procurements. Sealed bids are competitive in nature and awarded to the lowest responsible bidder while negotiated procurements makes use of discussions to reach contractual agreement. Under fixed-price contracts, a sealed bidding contract type, maximum risk and responsibility are borne by the contractor who bears full responsibility for profit or losses. Thus, the contractor has incentive to control costs and perform efficiently. On the other hand, though procurement by negotiation is more flexible, subjectivity and judgment is involved in the decisions and administration of these contracts tends to be expensive in terms of documentation and time. Firms should therefore evaluate and determine which contract type will give them value for money.

Of importance, as concluded by Golhar and Deshpande (2009), "firms should not be enticed by short term gains of outsourcing and treat their suppliers as some distant entity providing cheap goods and services", (p 47). Rather, firms need to go beyond the traditional supplier-customer relationship to a point where outsourcing is seen as a strategic decision and the supplier is viewed as a strategic partner who works with the firm to add value. "Successful outsourcing relationships naturally broaden and deepen over time", (p 47), they add.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the research methodology that was used in the study. It discusses the research design paying attention to the choice of the design, the population of study, data collection methods as well as data analysis and data presentation methods that were used in the study.

3.2 Research Design

The study adopted case study design to assess the strategies adopted by GlaxoSmithKline in managing outsourcing relationships. A case study is an in-depth investigation of an individual, institution or phenomenon and is appropriate for individual researcher because it gives them an opportunity to research in-depth one particular aspect of the problem. Since this study aims at finding out the strategies adopted by GlaxoSmithKline in managing outsourcing relationships, case study approach is the best design to fulfil the objectives of the study.

3.2 Data Collection Methods

This study utilized both primary and secondary data. To ensure reliable results, multiple sources of evidence will be used. The primary data was obtained through both structured and face to face interview guide with open ended questions.

The interview guide was used to facilitate personal interviews with the heads of finance, customer service, marketing, supply and logistics, regulatory, production and procurement with a view to obtaining in-depth and comprehensive data regarding the variables of the research study. The structured interview guide was researcher administered to the direct reports of the heads of above business key functions.

3.3 Data Analysis

The data collected was both qualitatively analyzed by use of content analysis and descriptive analysis. This was done by objectively identifying specific characteristics of messages and using the same approach to relate trends on strategies adopted by GlaxoSmithKline in managing outsourced services. The data was then coded to facilitate statistical analysis. Descriptive statistics such as percentages and tables were used to present the data.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results and findings from the questionnaire interview guides that were administered to the respondents at GlaxoSmithkline. The purpose of the study was to explore the strategies adopted by GlaxoSmithKline in managing outsourced services. The findings are presented according to the specific research objectives set out in chapter one: to identify the main motives for starting an outsourcing relationship; to identify the benefits of an outsourcing relationship and; to establish the factors that influences the management of the outsourcing relationship by the client organization. The findings are presented in form of frequency tables, pie charts, bar charts and cross-tabulations.

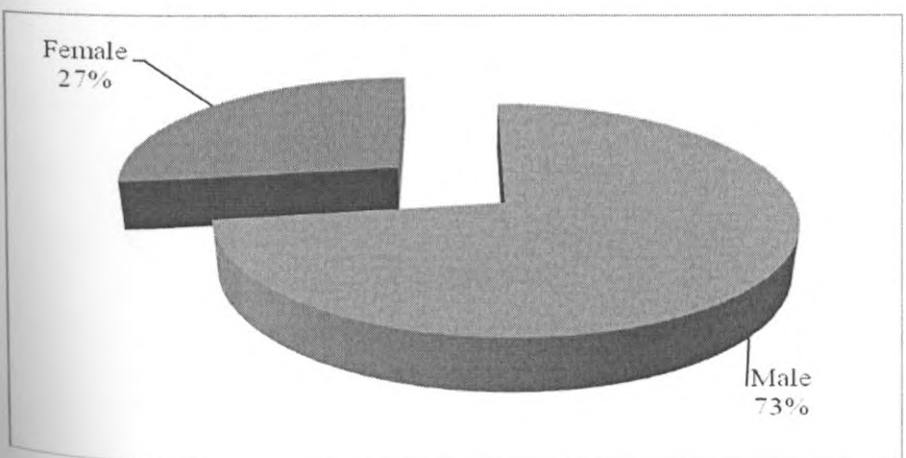
4.2 Response Rate

The study targeted 28 respondents drawn from different departments as respondents. A total of 22 respondents responded translating to a response rate of 78.5%.

4.3 Demographic Characteristics

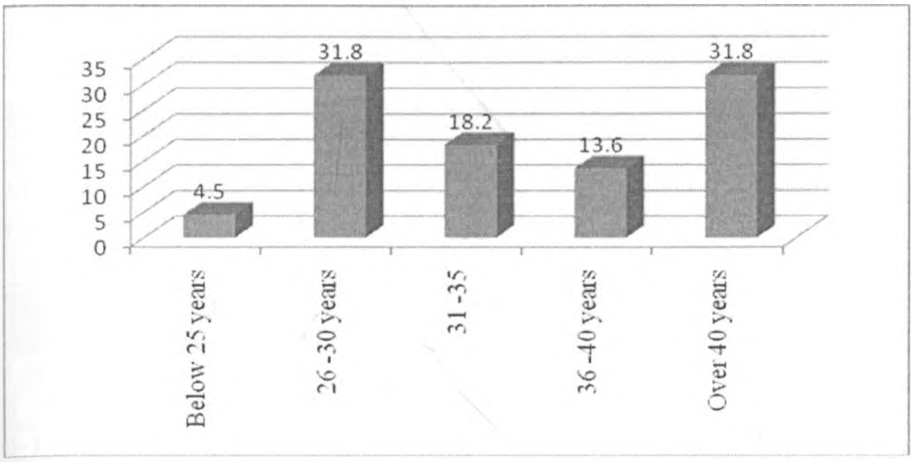
Majority (72.7%) of the respondents surveyed were male and the remaining 27.3% female.

Figure 4:0:1: Gender of respondents



On age of the respondents, 31.8% of the respondents are aged 26- 30 years, 18.2% 31-35 years and another 31.8% were aged over 40 years (figure 4.2).

Figure 4:2: Age brackets of respondents



Majority (40.9%) were from procurement and suppy chain department, 31.8% from operations department, 13.6% from finance and audit department, 9.1% from human resources department and the remaining 4.5% from general administration department. Those in senior and middle management intertwined at 40.9%. the demographic characteristics further indicate that majority of the respondents have worked for GlaxoSmithKline for less than 3 years (table 4.1).

Table 4.1: Other Demographic Characteristics

Department where respondent work	Frequency	Percentage
Operations	7	31.8
Procurement and supply chain	9	40.9
Finance and audit	3	13.6
Human resources	2	9.1
General administration	1	4.5
Total	22	100.0
Designation	**Frequency**	**Percentage**
Senior management	9	40.9
Middle management	9	40.9
Operations	4	18.2
Total	22	100.0
how long have you worked for this organization	**Frequency**	**Percentage**
Less than 3 years	7	31.8
3 -5 years	6	27.3
6-10 years	1	4.5
10 -15 years	3	13.6
Over 15 years	5	22.7

4.4 Reasons for GlaxoSmithKline's Outsourcing

The study revealed results related to respondents' opinions on the reasons why they think GlaxoSmithKline decided to outsource services. 45.5% of the respondents strongly agreed that cost saving on overheads is a reason, 31.8% agreed, 13.6% disagreed and the remaining 9.1% strongly disagreed. About half of the respondents agreed that tendency to follow initiatives by competitors as a motivation to outsourcing services. 40.9% disagreed with the statement that they did not have expertise outsourced available in house. Majority (63.6%) agreed that outsourcing acted as a cost control system to the organization. Further majority of the respondents disagreed with conformance to set quality standards as a motivation of outsourcing services (table 4.2).

Table 4.2 Reasons on Outsourcing

Reasons for outsourcing	Strongly agree	Agree	Disagree	Strongly Disagree
Cost saving on overheads	45.5(10)	31.8(7)	13.6(3)	9.1(2)
Tendency to follow initiatives by competitors	9.1(2)	45.5(10)	45.5(10)	-
We do not have the expertise outsourced available in the house	4.5(1)	36.4(8)	40.9(9)	18.2(4)
As cost control system	18.2(4)	63.6(14)	18.2(4)	-
To access world class capabilities	-	31.8(7)	54.5(12)	13.6(3)
To concentrate on core businesses	31.8(7)	63.6(14)	4.5(1)	
Conformance to set quality standards	4.5(1)	22.7(5)	59.1(13)	13.6(3)
To remain globally competitive	9.1(2)	45.5(10)	36.4(8)	9.1(2)
To benefit from vendor's efficiency and economies of scale	36.4(8)	40.9(9)	13.6(3)	9.1(2)

**percentages are outside the brackets*

Source, Survey data, 2011

Table 4.3 displays the mean and the standard deviation for the study variables. The respondents perceived that the reasons why GlaxoSmithKline decided to outsource services were ranked as follows:

1. To concentrate on core businesses
2. Cost saving on overheads
3. As cost control system
4. To benefit from vendor's efficiency and economies of scale
5. Cost saving on buying equipments
6. Tendency to follow initiatives by competitors
7. To remain globally competitive
8. We do not have the expertise outsourced available in the house
9. To access world class capabilities
10. Conformance to set quality standards

The coefficient of variation (CV) calculated as the standard deviation divided by the mean (expressed as a percent) was used to compare standard deviations as they had been computed from data with diferent means. It measures the scatter in the data realtive to the mean.The higher the coefficient of variation the higher the variability within the responses.

Table 4.3: Means and standard deviations on responses on outsourcing

Reasons for Outsourcing Services	N	Minimum	Maximum	Mean	Std. Deviation	Coefficient of Variation
Cost saving on overheads	22	1	4	1.86	.990	53.23
Tendency to follow initiatives by competitors	22	1	3	2.36	.658	27.88
We do not have the expertise outsourced available in the house	22	1	4	2.73	.827	30.29
Cost saving on buying equipments	22	1	3	2.00	.617	30.85
As cost control system	22	1	4	1.86	.774	41.61
To access world class capabilities	22	2	4	2.82	.664	23.55
To concentrate on core businesses	22	1	3	1.73	.550	31.79
Conformance to set quality standards	22	1	4	2.82	.733	25.99
To remain globally competitive	22	1	4	2.45	.800	32.65
To benefit from vendor's efficiency and economies of scale	22	1	4	1.95	0.950	48.72

Source, Survey data, 2011

4.5 Benefits of outsourcing relationship

The results of the survey indicate that GlaxoSmithKline has relatively gained from the outsourcing services. It is worth noting that though 54.5% of respondents strongly agreed that costs have been saved especially on purchasing equipment as the vendor is required to come with his own machinery/equipment. Other benefits include Saving management time required to supervise internal staff; faster and better service from third party and; the work is carried out quicker and more effectively. Interestingly, majority of the respondents disagreed that outsourcing had led to conformance of quality standards (table 4.4).

Table 4.4: Benefits of Outsourcing

Benefits of Outsourcing	Strongly agree	Agree	Disagree	Strongly Disagree
Cost saving on buying equipment	54.5(12)	36.4(8)	9.1(2)	-
Saving management time required to supervise internal staff	22.7(5)	59.1(13)	18.2(4)	-
Faster and better service from third party	18.2(4)	59.1(13)	18.2(4)	4.5(1)
the work is carried out quicker and more effectively	13.6(3)	59.1(13)	22.7(5)	4.5(1)
We do not have our own employees for the tasks therefore it reduces other costs	13.6(3)	36.4(8)	45.5(10)	4.5(1)
Reduced head count, savings on remunerations	27.3(6)	63.6(14)	9.1(2)	-
Conformance to set quality standards	4.5(1)	31.8(7)	54.5(12)	9.1(2)
Access to equipment/technology owned by service provider	40.9(9)	50(11)	9.2(2)	-
loss of control of the outsourcing process	9.1(2)	45.5(10)	45.5(10)	-

**percentages are outside the brackets*

Source, Survey data, 2011

Table 4.5 displays the means and standard deviations on respondents' opinions on the importance of outsourcing services. The respondents ranked Cost saving on buying equipment as the most important followed by access to equipment/technology owned by service provider; saving management time required to supervise internal staff; Faster and better service from third party; the work is carried out quicker and more effectively we do not have our own employees for the tasks therefore it reduces other costs; conformance to set quality standards and; reduced head count and savings on remunerations

Table 4.5: Means and standard deviations deviation on respondents' opinions on benefits of Outsourcing Services

Benefits of Outsourcing	N	Minimum	Maximum	Mean	Std. Deviation	Coefficient of Variation
Cost saving on buying equipment	22	1	3	1.55	0.671	43.29
Saving management time required to supervise internal staff	22	1	3	1.95	0.653	33.49
Faster and better service from third party	22	1	4	2.09	0.750	35.89
the work is carried out quicker and more effectively	22	1	4	2.18	0.733	33.62
We do not have our own employees for the tasks therefore it reduces other costs	22	1	4	2.41	0.796	33.03
Reduced head count, savings on remunerations	22	2	4	2.82	0.588	20.85
conformance to set quality standards	22	1	4	2.68	0.716	26.72
Access to equipment/technology owned by service provider	22	1	3	1.68	0.646	38.45
loss of control of the outsourcing process	22	2	4	3.36	0.658	19.58

Source, Survey data, 2011

4.6 Managing Service Outsourcing

From the survey, 77.3% of the respondents felt that clear Service Level Agreements are very important in managing service outsourcing (table 4.6). Further, 59.1 % of the respondents agreed that regular meetings with service providers to monitor progress was as important in managing outsourcing, while the remaining 13.6% felt it was not.

86.4% of the respondents felt that incentives to service providers to motivate them to provide quality service was an effective method to manage service outsourcing. Of note, 27.3% of the respondents felt that 'dictate and ensure vendor employees terms, remuneration and benefits is adequate' was not important.

Among those who either agreed or strongly agreed felt that for a successful outsourcing relationship, the following are important. Clear service level agreement (SLA) that measure supplier performance in formal and systematic manner; regular meetings with service providers to monitor progress; incentives to service providers to motivate them to provide quality service; proper vendor selection to ensure vendor is capable of delivery, involve service recipients and cross functional teams; dictate and ensure vendor employees terms, remuneration and benefits is adequate; appoint some in house managers to be in charge of the third party and ensure faster issue resolution; design flexible contracts that allow for revision whenever required and ; treat service providers as partners by sharing pertinent information and creating long term relationships

Table 4.6: Managing Service Outsourcing

Managing Service Outsourcing	Strongly agree	Agree	Disagree	Strongly Disagree
Clear SLA that measure supplier performance in formal and systematic manner	45.5(10)	31.8(7)	18.2(4)	4.5(1)
Regular meetings with service providers to monitor progress	27.3(6)	59.1(13)	13.6(3)	-
Incentives to service providers to motivate them to provide quality service	36.4(8)	50(11)	13.6(3)	
Proper vendor selection to ensure vendor is capable of delivery, involve service recipients and cross functional teams	54.5(12)	36.4(8)	9.1(2)	-
Dictate and ensure vendor employees terms, remuneration and benefits is adequate	18.2(4)	45.5(10)	27.3(6)	9.1(2)
Appoint some in house managers to be in charge of the third party and ensure faster issue resolution	13.6(3)	72.7(16)	9.1(2)	4.5(1)
Design flexible contracts that allow for revision whenever required	50(11)	31.8(7)	18.1(4)	-
Treat service providers as partners by sharing pertinent information and creating long term relationships	27.3(6)	63.6(14)	9.1(2)	-

**percentages are outside the brackets*

Source, Survey data, 2011

Table 4.7 displays the means and standard deviations on respondents' opinions on strategies that GlaxoSmithKline should employ to increase value for money from service outsourcing. The respondents ranked proper vendor selection to ensure vendor is capable of delivery, involve service recipients and cross functional teams as the most important and dictate and ensure vendor employees terms, remuneration and benefits is adequate as the least important (table 4.7).

Table 4.7: Means and Standard deviations on factors important in managing service outsourcing

	N	Minimum	Maximum	Mean	Std. Deviation	Coefficient of Variation
Clear SLA that measure supplier performance in formal and systematic manner	22	1	4	1.82	.907	49.84
regular meetings with service providers to monitor progress	22	1	3	1.82	.588	32.31
incentives to service providers to motivate them to provide quality service	22	1	3	1.77	.685	38.70
proper vendor selection to ensure vendor is capable of delivery, involve service recipients and cross functional teams	22	1	3	1.55	.671	43.29
Dictate and ensure vendor employees terms, remuneration and benefits is adequate	22	1	4	2.27	.883	38.90
Appoint some in house managers to be in charge of the third party and ensure faster issue resolution	22	1	4	2.05	.653	31.85
Design flexible contracts that allow for revision whenever required	22	1	3	1.64	.727	44.33
Treat service providers as partners by sharing pertinent information and creating long term relationships	22	1	3	1.82	.588	32.31

Source, Survey data, 2011

4.7 Content Analysis

Content analysis was performed on the open-ended questions and in depth interviews held. Content analysis is defined as "any technique for making inferences by systematically and objectively identifying specified characteristics of messages" (Nachmias, 1996, p.324-325). Gall & Borg (2003, p. 288) also defined "content analysis as textual analysis that involves comparing, contrasting, and categorizing a corpus of data to test hypothesis." Gall et al. (2003) suggest that a coding system should be employed to categorize information and then a frequency count be conducted for the occurrences of each category before interpretation is done. Nachmias (1996) suggested three applications of content analysis: i) To describe the attributes of the message, ii) To make inferences about the sender of the message and about its causes or antecedents and iii) To make inferences about the effects of messages on recipients.

Based on the above considerations, the interview responses were analyzed for each group. Responses were classified by themes and attributes of the messages from each participant and a frequency count was performed to summarize the findings: on factors that contributed to outsourcing of catering & cleaning, cost savings on overheads and reduced headcount was the greatest contributing factor according to management. Further the interviews analysis indicated that management felt that outsourcing auxiliary services will help in focusing on GlaxoSmithKline core business.

Another reason why GlaxoSmithKline decided to outsource was to allow the experts perform the services they are good at while at the same time release management time to focus on running the core business. Conversely, representatives of senior management cited that though the organization did not find vendor selection and industry specific needs as important factors then, but concede that they have since found that such factors should be considered before service outsourcing.

On the impact of outsourcing, ability to concentrate on core business: by outsourcing, management time was freed up and management had more time to deal with core business problem solving; quality service (catering & cleaning) provided by experts/ professionals and contract negotiation (GlaxoSmithKline has an edge in negotiating contracts and can bid for lowest cost provider) are the major benefits that GlaxoSmithKline has delivered from outsourcing.

On the negative side, social cost of having employee morale affected by downsizing was cited as a demerit to outsourcing. One of the GlaxoSmithKline senior management member was of the view that overtime savings due to outsourcing may not have positively affected the profit of the company. This is due to the fact that employees holding those posts are low cost.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, discussion and conclusions drawn from the study findings. The purpose of these conclusions is to answer the research questions and recommend strategies that the organization can use to manage outsourcing relationship. Recommendations for further research are also presented.

5.2 Summary

This study was designed with a purpose to find out what strategies an organization should employ to manage service outsourcing for value. The research was guided by the following research objectives to identify the main motives for starting an outsourcing relationship; to identify the benefits of an outsourcing relationship and; to establish the factors that influences the management of the outsourcing relationship by the client organization.

The study employed case study approach. The study targeted 28 employees drawn from various departments and in either middle or senior management. A total of 22 responded translating to a response rate of 78.5%. Structured questionnaire interview guides were used to collect the data. SPSS was used to analyze the data. The results are displayed in form of tables.

The study findings indicated motives of outsourcing which included: cost saving on overheads, to concentrate on core business, to remain competitive and to access world class capabilities. Majority of the respondents indicated that cost savings was the most motivating factor which is in line main reason why firms outsource (Hill, 2000).

The study also established that there are benefits associated with outsourcing in which majority of the respondents concurred was in saving management time to concentrate on core business. This substantiates Sandhyarani (2009) proposition that outsourcing allows employees to concentrate on critical activities of the company resulting in overall company growth and development. Further, the study determined that though the organization has had gains resulting from outsourcing, management need to employ various strategies in order to gain maximum value. Most outstanding of all was the institution of clear service level agreements that measure supplier performance in a formal and systematic manner. This corroborates Johnston and Clark (2005) who assert that most vendors would deliver more effectively when they have clear objectives. Respondents also stated that organization should appoint in house manager to be in charge of vendors as well hold regular meetings with them to improve service delivery.

5.2.1 Reasons for Outsourcing

Organizations consider both financial and non financial factors before outsourcing. According to the findings of this study the most motivating factors that led GlaxoSmithKline to consider outsourcing services was to save costs on overheads and also to concentrate on core business. Hill (2000) underscores the fact that outsourcing should be linked to business strategy; the outsourcing decision should favourably impact the firm's ability to serve its market, retain its customers and grow market share.

By deciding to outsource services, the management carried out an evaluation of the firm's competitive advantage, resources and capabilities and before settling on the decision. This corroborates Barthelemy (2003) who cautioned that firms should not outsource core, difficult to imitate capabilities. For successful outsourcing, the organization needs to select a good and capable vendor. This not only reduces operational risk through slow and difficult transition but also assures management of business continuity and allows them to spend ample time on core business activities (Beasly et al, 2004). The study deduced that the organization did not do an excellent job in vendor selection at the beginning of outsourcing and therefore suffered in delayed service provision as well as a difficult transition. This as a result of retaining previously retrenched employees to continue providing the services as vendors who had difficulty transitioning into a vendor mindset and expected to still be remunerated and treated as employees. It is worth noting though the company is now recruiting vendors in a transparent and professional manner.

Cost effectiveness of the outsourcing decision is a key factor to be considered before outsourcing. Hood and Young (2003) caution against wholesome focus on costs as this can compromise other factors like quality, ability to deliver and monitoring. From in depth interviews conducted, it is apparent that the organization is cost conscious and that can adversely affect service delivery. This can be inferred from the respondents' opinion on that quality standards (51.1% disagreed with the statement) and world class capabilities factors which was rated against.

5.2.2 Benefits of Outsourcing to an Organization

Barthelemy 2003 asserts that carefully crafted outsourcing strategies positively impact the overall performance of the organization. The study established that generally the respondents feel that outsourcing has benefitted the organization with the greatest value accruing from cost savings on overheads due to reduced headcount according to 54.5% of respondents. Other benefits cited include Saving management time required to supervise internal staff; faster and better service from third party and; the work is carried out quicker and more effectively. Interestingly, majority of the respondents disagreed that outsourcing had led to conformance of quality standards

Singhatiya (2005) warns that unless well managed, benefits created through outsourcing can be wiped off through poor service delivery and low quality. Organizations that have outsourced services should consider the inherent costs of outsourcing. From the findings of the research, it is clear that the respondents do not perceive the organization to have accessed world class capabilities and as such are skeptical that the service provided by the vendors, meets world class standards. This contradicts X-Sellent (2009) who argues that outsourcing enables companies to tap into global knowledgebase of world class capabilities. While this may be true in certain instances like outsourcing of information technology, it is clear it is currently not be the case for outsourcing of services at GlaxoSmithKline.

5.2.3 Managing Service Outsourcing

In order to get value for money, organizations need to be careful in managing vendors. Motivating and managing vendors should form an integral deliverable for management if the organization is to meet its overall objective for outsourcing (Johnston and Clark, 2005). From the survey, 77.3% of the respondents felt that clear Service Level Agreements are very important in managing service outsourcing. Further, 59.1 % of the respondents agreed that regular meetings with service providers to monitor progress was as important in managing outsourcing, while the remaining 13.6% felt it was not. Johnston and Clark (2005) warns that SLAs are bound to be non beneficial unless they are designed to capture all dimensions of performance and expected standard of delivery. Organizations should be careful not to engage in paper SLAs that add no value year after year since they are not clearly set out but input in large bound contracts. 86.4% of the respondents felt that incentives to service providers to motivate them to provide quality service was an effective method to manage service outsourcing. Of note, 27.3% of the respondents felt Dictate and ensure vendor employees terms, remuneration and benefits is adequate.

5.4 Conclusions

From the research findings it is evident that cost saving on overheads and concentration on core business activities was the most motivating factor. This was closely followed by the economic value that the management anticipated would accrue from service outsourcing resulting from reduced headcount as well. The organization should also consider the qualification and capability of the vendor.

Overall, from the study the company has accrued both direct financial gains as well as non-financial gains. As a result of outsourcing, management has directed focus on core business activities. However, the organization has not attained maximum value for money given the result finding of low quality and lack of timeliness in service delivery.

Managing service outsourcing requires specific managerial capabilities and continuous monitoring. GlaxoSmithKline needs to institute strategies to enable the organization attain the desired value. Strategies that can be implemented include: Clear service level agreements with vendors, appoint in house managers to hold regular meeting with vendors and instituting flexible contracts.

5.5 Recommendations

Based on the findings and conclusions of the research, the following recommendations were made: In future outsourcing activities, the organization should carefully select vendors who have technical capability to perform expected tasks. Organizations should ensure that outsourcing aligns with the overall corporate strategy.

Cost benefit analysis should always be done to evaluate the real value to be anticipated from service outsourcing. Emphasis on costs savings should not compromise the need for quality reliable service delivery. Accruing anticipated benefits is not an automatic process and the organization should constantly monitor supplier performance.

Research established that organization will benefit from setting out clear service level agreements with suppliers as well as appointing in house managers to be in charge of service providers and monitor their progress. This is practical to implement during fresh bids as well as during contract renewal. Existing department in charge of suppliers can be broadened to accommodate auxiliary service outsourcing.

5.5.2 Recommendation for Further Studies

This study explored strategies adopted by GlaxoSmithKline in managing outsourced service relationships. The study found and analyzed data with a focus on GlaxoSmithKline. There are other pharmaceutical organizations in Kenya that have embraced outsourcing and have adopted strategies to manage such outsourced services. There is therefore need to carry out a comprehensive study to investigate strategies adopted by these organizations. This will aid in validating the findings attained by this study.

REFERENCES

Arnold, U. (2000). New dimensions of outsourcing: a combination of transaction cost economics and the core competencies concept. *European Journal of Purchasing & Supply Management*, Vol. 6(1), pp. 23-29.

Barthelemy, J. (2001). The hidden costs of IT outsourcing. MIT Sloan Management Review, 42: 60-69.

Barthelemy, J. & Adsit, D. (2003). *The Seven Deadly Sins of Outsourcing*. The Academy of Management Executive Vol. 17, No.2. The Academy of Management.

Barthelemy, J., and Geyer, D. (2004). The determinants of total IT outsourcing: An empirical investigation of French and German firms. The Journal of Computer Information Systems, 44(3), 91–97.

Basle Committee, (2004). Outsourcing in Financial Services. Bank for International Settlements, Basel Committee on Banking Supervision, Available online: http://www.bis.org/publ/joint12.htm.

Becker, B.E., & Huselid, M.A. (2006). Strategic human resources management: where do we go from here?, *Journal of Management*, Vol. 32, pp. 898-925.

Bienstock, C.C., & Mentzer, J.R. (1999). An experimental investigation of the outsourcing decision for motor carrier transportation, *Transportation Journal*, Vol. 39 No. 1, pp. 42-59.

Bolat, T. & Yilmaz, O. (2009). The relationship between outsourcing and organizational performance: is it myth or reality for the hotel sector?, *International Journal of Contemporary Hospitality Management*, Vol. 21(1), pp. 7-23.

Burt, T. (2000) Component makers are assuming more responsibility for designing and supplying complete sub-systems. *Financial Times*, 29(3).

REFERENCES

Arnold, U. (2000). New dimensions of outsourcing: a combination of transaction cost economics and the core competencies concept, *European Journal of Purchasing & Supply Management*, Vol. 6(1), pp. 23-29.

Barthelemy, J. (2001). The hidden costs of IT outsourcing. MIT Sloan Management Review, 42: 60-69.

Barthelemy, J. & Adsit, D. (2003). *The Seven Deadly Sins of Outsourcing.* The Academy of Management Executive Vol. 17, No.2. The Academy of Management.

Barthelemy, J., and Geyer. D. (2004). The determinants of total IT outsourcing: An empirical investigation of French and German firms. The Journal of Computer Information Systems, 44(3), 91–97.

Basle Committee, (2004). Outsourcing in Financial Services. Bank for International Settlements, Basel Committee on Banking Supervision, Available online: http://www.bis.org/publ/joint12.htm.

Becker, B.E., & Huselid, M.A. (2006). Strategic human resources management: where do we go from here?, *Journal of Management*, Vol. 32, pp. 898-925.

Bienstock, C.C., & Mentzer, J.R. (1999). An experimental investigation of the outsourcing decision for motor carrier transportation, *Transportation Journal*, Vol. 39 No. 1, pp. 42-59.

Bolat, T. & Yilmaz, O. (2009). The relationship between outsourcing and organizational performance: is it myth or reality for the hotel sector?, *International Journal of Contemporary Hospitality Management*, Vol. 21(1), pp. 7-23.

Burt, T. (2000) Component makers are assuming more responsibility for designing and supplying complete sub-systems. *Financial Times*, 29(3).

Chandran E. (2004). Research Methods: A Quantitative Approach with Illustrations from Christian Ministries. Nairobi: Daystar University.

Chase, R.B., Jacobs, F.R.& Aquilano, N.J. (2004). *Operations Management for CompetitiveAdvantage,* 10th ed., Irwin/McGraw-Hill, Boston, MA.

Corbett M. (2004). The Outsourcing Revolution: Why It Makes Sense and How to Do It Right. Kaplan Publishing.

Deavers, L. K. (1997). Outsourcing: A corporate competitiveness strategy, not a search for low wages. *Journal of Labor Research* , Vol 18(4), 503-519, DOI: 10.1007/s12122-997-1019-2

Fan, Y. (2000). Strategic outsourcing: evidence from British companies, *Marketing Intelligence & Planning*, Vol. 18(4), pp. 213-9.

Fox, W. & Bayat, M.S. (2007). A Guide to Managing Research. Cape Town, Juta & Co. Ltd.

Garner, C. A. (2004). Offshoring in the Service Sector: Economic Impact and Policy Issues, *Economic Review*—Federal Reserve Bank of Kansas City, 89 (3), 5-37.

Girma, S. and Gorg, H. (2004). Outsourcing, foreign ownership and productivity: Evidence from UK establishment-level data. *Review of International Economics*, 12(5), pp. 817-832.

Golhar Y. D. & Deshpande P. S. (2009). *Outsourcing for financial success? An exploratory study.* Michigan, Advances in Competitive Research.

Guth, R. A. (2000). Japan's outsourcing contracts give boost to IBM's Asian arm. *The Wall Street Journal,* A14.

Hamel, G. (1991). Competition for Competence and Inter-Partner Learning within International Strategic Alliances," *Strategic Management Journal*, 12, 83-103.

Hill T. (2000). *Operations Management- Strategic Context and Managerial Analysis.* New York, Palgrave Macmillan.

Insinga, C. R., & Werle, J.M.(2000). Linking Outsourcing to Business Strategy. *The Academy of Management Executive* , 14,(4), pp. 58-70.

Johnston. R., & Clark, G. (2005). *Service Operations Management, Improving Service Delivery,* 2nd Edition. England, Pearson Education Limited.

Jones, W.O. (2000). Leading Laterally in Company Outsourcing. *Sloan Management Review,* 41(2), 25-36.

Kakabadse, A., & Kakabadse, N. (2002). Trends in Outsourcing: Contrasting USA and Europe, *European Management Journal,* 20(2), pp. 189–198.

Kakumanu, P. & Portanova, A. (2006). Outsourcing: Its benefits, drawbacks and other related issues. Journal of American Academy of Business, 9(2), pp. 1 -7.

Lacity, M., & Willcocks, L. (1995). An Empirical investigation of information technology sourcing practices: Lessons from experience. MIS Quarterly, 22, pp. 363-408.

Lacity, M., & Willcocks, L. (1998). An Empirical Investigation of Information Technology Sourcing Practices: Lessons from Experience", MIS Quarterly, 22 (3), pp. 363-408.

Laarhoven, P.V., Berglund, M. A & Peters, M. (2000). Third-party logistics in Europe – five years later, *International Journal of Physical Distribution & Logistics Management,* 30(5), pp. 425-42.

Leenders, M. R., Fearon H.E., Flynn A.E., & Johnson P.F. (2002). Purchasing and Supply

Management. New York, McGraw-Hill.

Mcfarlan. W., & Nolan, R. (1995). How to manage and I T. Outsourcing alliance. Sloan Management Review, 36(2), 9–23.

Mugenda, M., O. & Mugenda, G., A (2003). Research methods: Quantitative and Qualitative approaches. Laba graphics services

Mullin, R. (1996) Managing the outsourced enterprise. *Journal of Business Strategy* 17(4), 28–32.

Nachmias & Nachmias (2004): 5th Edition: Research Methods in the Social Sciences, Reprinted by Arnold, London, Britain

Peisch, R. (1995). When outsourcing goes awry. *Harvard Business Review* 73(3), 24–30.

PriceWaterhouseCoopers, (1999). Global Top Decision Makers' Study on Business Process Outsourcing. PriceWaterhouse-Coopers, Yankelovich Partners, Goldstain Consulting Group, New York.

Robson, C. (2002). Real world research (2nd Ed.). Oxford: Blackwell

Saleemi N.A. (2008): Quantitative Techniques Simplified. Published by Saleemi Publications Ltd, Nairobi, Kenya

Saunders, M., Lewis, P. & Thornhill, A. (2003). Research Methods for Business Students, Third Edition. England, Pearson Education Limited.

Singhatiya, A. (2005). *Outsourcing: A Complex Series of Tradeoffs.* Retrieved from http://ezinearticles.com/?Outsourcing:-a-Complex-Series- of-Tradeoffs&id=88571

Useem, M. & Harder, J. (2000). Leading laterally in company outsourcing. *Sloan Management Review*, 41(2), 25-36.

X-Sellerant, (2009), *Retain Control, Increase Flexibility and Reduce Costs by Outsourcing Lead Generation.* http://www.x-sellerant.com.

APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Simon Omaiko Momanyi

P.O Box 78392-00507

Nairobi

Mobile: 0722436510

Dear Interviewee,

RE: INTRODUCTION LETTER

I am a postgraduate student pursuing a Master of Business Administration (MBA) degree at the University of Nairobi, School of Business. As part of the partial requirements for the award of degree, I am currently conducting a study on Strategies Adopted by GlaxoSmithkline in managing outsourced services.

I kindly request you to assist with information outlined in the interview guide and questionnaire herewith attached. The information provided will be treated with utmost confidentiality and for academic purposes only.

Thanks you in advance

Yours Faithfully,

Simon Omaiko Momanyi	Dr. James Gathugu
MBA Student	Department of Business Administration
University of Nairobi	School of Business, University of Nairobi

APPENDIX 2: INTERVIEW GUIDE

1. Name of respondent. ....

2. What is your title/position? ....

3. What is your total work experience? ....

4. How long have you worked in this organization? ....

5. What are some of the factors that the management considered before outsourcing services?

   ....

6. What were the greatest drivers for outsourcing services at GlaxoSmithKline?

   ....

7. In retrospect, what factors were not imminent during outsourcing decision-making time but are now important and should be considered before outsourcing?

   ....

   ....

8. What impact has outsourcing had on GlaxoSmithKline's operations

   ....

   ....

9. In your opinion has outsourcing affected employee morale?

   ....

   ....

10. What are some of the methods employed by the company to manage outsourcing relationship?

....

....

11. In your opinion what do you consider the disadvantages of outsourcing to be?

....

....

APPENDIX 3: STRUCTURED INTERVIEW

This study is a requirement for the partial fulfilment of the Degree of Masters in Business Administration at the University of Nairobi. The purpose of this research is to provide strategies for managing service outsourcing. This is an academic research and all information collected from respondents will be treated with strict confidentiality.

PART I: Background Information

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

1. Please indicate your gender

   O Male O Female

2. Please indicate your age

   O Below 25 years O 26-30 years O 31-35 years O 36-40 years O Over 40 years

3. Please indicate the department

   O Operations O Procurement & Supply Chain O Finance & Audit

   O Human Resources O General Administration O Other (specify)..............

4. Please indicate your designation

   O Senior Management O Middle management O Operations

   O Other (specify)..

5. How long have worked for this organization?

   O Less than 3 years O3-5 years O 6-10 years O 10-15 years O Over 15 years

PART II: **Reasons on GlaxoSmithKline's Outsourcing**

6. In a scale of 1 (strongly agree) to 4 (strongly disagree) please rate the reasons you think the company decided to outsource services.

	7. **The following were the reasons why the company decided to** outsource **services**	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**
i.	Cost saving on overheads				
ii.	Tendency to follow initiatives by competitors				
iii.	we did not have the expertise outsourced available in house				
iv.	Cost saving on buying cleaning/ catering equipment				
v.	As cost control system				
vi.	To access world class capabilities				
vii.	To concentrate on core businesses				
viii.	Conformance to set quality standards				
ix.	To remain globally competitive				
x.	To benefit from vendor's efficiency & economies of scale				

PART III

8. Please tick the numeric value that most corresponds to your personal opinion on the benefits/ disadvantages below realized by company since outsourcing.

	The following been realized since the company outsourced	Strongly agree	Agree	Disagree	Strongly disagree
i.	Cost saving on buying equipment				
ii.	Saving management time required to supervise internal staff				
iii.	Faster and better service from third party				
iv.	the work is carried out quicker and more effectively				
v.	We do not have to have our own employees for the tasks therefore it reduces other costs e.g payroll costs				
vi.	Reduced headcount, savings on remuneration				
vii.	Conformance to set quality standards				
viii.	Access to equipment/ technology owned by the service provider				
ix.	Loss of control of the cleaning process				

PART IV

9. Please rank the following statements as relates to managing service outsourcing.

Do you agree that the following are important in managing service outsourcing?

	Which of the following factors should management pay attention to in order to effectively manage service providers	Strongly	Agree	Disagree	Strongly
i.	Clear Service Level Agreements that measure supplier performance in a				

	formal and systematic manner				
ii.	Regular meetings with service providers to monitor progress				
iii.	Incentives to service providers to motivate them to provide quality service				
iv.	Proper vendor selection to ensure vendor is capable of delivery, involve service recipients and cross functional teams				
v.	Dictate and ensure vendor employees' terms, remuneration and benefits is adequate and timely				
vi.	Appoint some in-house managers to be in charge of the third party and ensure faster issue resolution				
vii.	Design flexible contracts that allow for revision whenever required				
viii.	Treat service providers as partners by sharing pertinent information and creating long-term relationships				

APPENDIX 4: WORK PLAN

Activities	2011			
	Sep	**Oct**	**Nov**	**Dec**
Proposal Writing				
Proposal Presentation				
Data Collection				
Data Analysis				
Report Writing				
Report Submission				

APPENDIX 5: RESEARCH BUDGET

Particular	**Cost (Kenya Shillings)**
Proposal development- Printing and stationery	4,000.00
Data collection	
1) Research assistant fees	15,000.00
2) Stationery and printing	5,000.00
Data analysis and report 1) Printing and stationery	9,000.00
Miscellaneous	5,000.00
TOTAL BUDGET	**38,000.00**

Pharma – East Africa