

**CHALLENGES OF OUTSOURCING STRATEGY BY MOBILE
PHONE OPERATORS IN KENYA**

BY

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DECLARATION

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

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DEDICATION

I dedicate this project to my parents

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ABBREVIATIONS

BPO	Business Process Outsourcing
CCK	Communication Commission of Kenya
CEO	Chief Executive Officer
CDMA	Code Division Multiple Access
CPA	Certified Public Accountant
EDS	Electronic Data System
ETACS	Extended Total Access Communications System
ETKL	Essar Telecom Kenya Limited
GSM	Global Standard for Mobile communication
HR	Human Resource
IAOP	International Association of Outsourcing Professionals
IBM	International Business Machines
ISO	International Standards Organization
IT	Information Technology
KP&TC	Kenya Posts & Telecommunication Corporation
LLO	Local Loop Operator
MFI	Micro-Finance Institutions
OSB	Outsourcing Standards Board
SLA	Service Level Agreement
SMS	Short Message Service

ABSTRACT

This survey sought to establish the challenges of outsourcing strategy by mobile phone operators in Kenya. The other objective was to determine the strategies employed in outsourcing strategy. The research study is carried out on the mobile phone operators in Kenya which include Telkom Kenya Limited, Safaricom Limited, Zain Kenya Limited, Essar Telecom Kenya Limited, Flashcom Limited and Popote Wireless. The research study is carried out to identify the challenges these operators face in outsourcing their services.

The research project was conducted by collecting primary data using an interview guide to collect in-depth data from the members of the management team across all the departments. The report contains in-depth analysis and interpretation of the data identifying the challenges faced by these mobile telecommunication operators.

The findings reveal that despite the many benefits of outsourcing, there are as well challenges. Outsourcing is an expensive business strategy. The cost of hiring professionals is quit high and training staff to get more familiar with the outsourced service. The time delay in service delivery poses a challenge in meeting customer needs. Government policies on outsourcing, cultural and legal barriers all work against the success of a very great strategy in business.

The recommendation is provided for further research works to be carried out. Cost is the greatest challenge in outsourcing. If the cost of outsourcing is made cheaper the outsourcing strategy will make businesses more profitable and increase on their market share. With the recently laid fibre optic cable in Kenya, it is expected that communication will be much cheaper, reducing the cost of doing business. An area for further study hence is the impact of Fibre Optic cable on Outsourcing strategy. Further, a study can be carried out on the Telecommunication industry as opposed to the Mobile phone and focus on the benefits and challenges of outsourcing.

CHAPTER ONE: INTRODUCTION

1.1 Background

Outsourcing is a make or a buy decision. Companies must decide whether to continue to make a certain activity in house or buy it from outside vendors. Outsourcing, dating back to the Romans, notably with the sourcing out of tax collection, regained popularity in eighteenth-century in England and has been in continuous use in a variety of forms ever since.

Outsourcing gained greater impetus in the 1970s, when large and diverse corporations were considered to be underperforming, a trend that became even more pronounced in early 1980s with the onset of global recession (Kakabadse & Kakabadse, 2000). In fact, the 1980s witnessed a change of direction in business strategy thinking, focusing on fewer activities (Peters & Waterman, 1982). As a result, corporate managers re-evaluated the concept that the organization needed to be vertically integrated and self sufficient. Thus, corporations divested “peripheral or supplementary” businesses in order to focus upon their “core” business and, in turn, become “de-integrated” by increasingly outsourcing their requirements for components and business services. By the 1990s, the agenda was set, with the growing belief that quick wins could be achieved by pursuing “core” strategies.

Many firms began re-engineering, in effect embarking on a search for new ways of organizing the various elements of work. Such “new beginnings” promoted a rethink and radical redesign of business processes in order to achieve dramatic improvements in critical areas of performance such as cost, quality, service, and speed. Further, with the proliferation and rapid pace of change of information technology (IT), IT became the most controversial part of the “outsourcing revolution” as numerous “mega-deals” worth over £1 billion produced below expected results (Kakabadse & Kakabadse, 2002). Whether IT is a support service or more critical to the competitive position of many firms and should definitely be retained in house dominated the outsourcing debate among academics and practitioners alike.

It is difficult, if not impossible, to agree on the origin of outsourcing as a practice and a scientific concept. Some researchers, mostly from a manufacturing and supply chain management background, would arguably see it as nothing more than an evolution of older research on “make-or-buy”. Others, most commonly from a service operations management background, would see it as a revolutionary trend started few years ago. One of the theories most often referred to in relation to outsourcing is the Transaction Costs Theory and hence argue that the knowledge roots of outsourcing stretch back to almost 70 years ago.

1.1.1 The Concept of Outsourcing Strategy

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. This is based on the notion that strategies should be built around core competencies that add the most value to the operation of the firm while those that add little or cannot be done cost effectively should be outsourced. Such arrangements, when done well, the firm gains a supplier that provides superior quality at lower cost than it could provide it (Pearce & Robinson, 1997).

Outsourcing means finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services. It means you use the knowledge, experience and creativity of new suppliers, which you did not use previously (Rothery & Robertson, 1995). According to Burnes (2004) outsourcing is the practice of seeking outside organizations to take over activities and services previously carried out within an organization like catering, security and IT.

Outsourcing entails the transfer of management or administration of a process or function from in house staff to an outside service provider. Rothery and Robertson (1995) discuss outsourcing as ‘finding new supplies and new ways to secure the delivery of raw materials, goods, components and services.

Outsourcing increases the flexibility of organizations in various ways. A company is able to focus on its core competencies without being burdened by the demands of bureaucratic dictate. Key employees are herewith released from performing non-core or administrative processes and can invest more time and energy in building the firm’s core businesses

The key in this lies in knowing, which of the main value drivers to focus on customer “intimacy”, product leadership or operational excellence. Focusing on one of these drivers may help a company create a competitive edge (Kakumanu & Partanova, 2006).

Similarly, outsourcing increases the speed of business processes. Supply chain management with the effective use of supply chain partners and business process outsourcing increases the speed of several business processes, such as the throughput in the case of a manufacturing company (Corbett, 2005). Finally, flexibility is seen as a stage in the organizational life cycle. A company can hereby help in maintaining ambitious growth goals, which do not fit with regular incumbent strategies allowing firms to retain their entrepreneurial speed and agility, which they would otherwise sacrifice in order to become efficient as they greatly expanded. It avoids a premature internal transition from its informal entrepreneurial phase to a more bureaucratic mode of operation.

However, the perceived risks of outsourcing strategy act as a big inhibitor for outsourcing. Companies perceive the risk of losing control over the operations of their processes. Also, if the trained employees in the vendor firm leave the job, the buyer may be at risk. If the vendor becomes financially unstable in some years, the buyer may have to search another vendor; the operations being at risk, if it does not search the new vendor fast. Loss of expertise. Customers may lose the expertise and knowledge of carrying out the outsourced processes with time. Data confidentiality to the customer may be prone to theft if the vendor firm does not have stringent security policies (Stallings & William, 2004).

1.1.2 Telecommunication Industry in Kenya

Mobile telecommunication services are increasing faster than fixed-line networks. There were less than 200 mobile operators around the world in 1992, yet by the end of 2001, there were over 600 operators. By the end of 2001, there were over 940 million mobile cellular subscribers around the world compared to just over one billion fixed telephone lines. China overtook the United States in becoming the largest mobile telephone market in the world. Growth has also been robust in Africa where more than half the countries

now have more mobile lines as compared fixed lines. (Export Processing Zone Authority, 2006)

The mobile telecommunication industry in Kenya is dominated by six Mobile phone operators namely Telkom Kenya, Safaricom Limited, Zain Kenya Limited, Essar Telecom Kenya Limited, Flashcom Limited and Popote Wireless. The first four have national coverage while Flashcom Limited and Popote Wireless are Local loop operators with initial coverage in Nairobi and intended coverage for Mombasa. The services provided are mainly basic voice and text messages – SMS, facsimile, voice mail, electronic mail and high data broadband access services.

Telecommunication is the world's fastest growing economic activity. The sector has turned the globe into an increasingly interconnected network of individuals, firms, schools and governments communicating and interacting with each other through a variety of channels and providing economic activities transcending borders, languages and cultures. The immediate goal of the telecommunications sector reform is to enhance efficiency. This has been witnessed in high growth in the areas open for competition while low growth was noted in the areas that didn't have competition notably in the provision of fixed line services. Competition no doubt released resources from the private sector to serve the demand that could not be served under a monopoly environment.

1.1.3 Mobile Phone Operators in Kenya

In the past the Kenya Post & Telecommunications Corporation (KP&TC) had a monopoly of basic infrastructure for landline services, international Services, as well as Internet backbone. Under the monopoly framework it was expected that the corporation would attract an investor to inject new capital for expansion, in turn the investor took advantage of the monopoly and used the resources to expand to the rural areas. Key indicators of the fixed line growth however, were low registering a net growth of 3.5% per year. Due to the low customer base, the “tele-density” remained below 1% over the past few years. Without competition, the sector did not grow and affected all other market segments. Cellular and Internet had to rely on this infrastructure as part of the licensing conditions.

Telkom Kenya was then established from the former KP&TC as a telecommunications operator under the Companies Act in April 1999 enjoying the monopoly until mid 2004 providing integrated communications solutions in Kenya with the widest range of voice and data services as well as network facilities for residential and business customers. The Government of Kenya then took a decision in line with the policy framework to license a second national operator and consequently opened up the market for full competition.

The first real competitor was Safaricom, which started as a department of Kenya Posts & Telecommunications Corporation, the former monopoly operator. Safaricom launched operations in 1993 based on an analogue ETACS network and was upgraded to the Global Standard for Mobile communication (GSM) in 1996 (license awarded in 1999). Safaricom Limited was incorporated on 3 April 1997 under the Companies Act as a private limited liability company and later converted into a public company with limited liability on 16 May 2002 (Safaricom, 2009). It remained a state corporation until 20 December 2007 when 25% of the Government of Kenya shares held by Telkom Kenya Limited were offloaded to the public. In March 2008, Safaricom ceased to be a state corporation and is now a public entity in which the Kenyan government owns 35%, 25% having been floated on the stock exchange and 40% is held by Vodafone Kenya Ltd - which in turn is 87.5% owned by Vodafone Group and 12.5% owned by a mystery company, Mobitelea. Safaricom is undoubtedly the leading mobile operator in Kenya. As of 30 September 2008, the company had 11.956 million subscribers consisting of 11.824 million prepaid and 132.3 thousand post-paid subscribers. This compared to 7.956 million subscribers, as of 30 September 2007 consisting of 7.853 million prepaid and 103.4 thousand post-paid subscribers, representing an overall growth of 50.3% (Safaricom Subscriber Base Jumps 50% in Six Months, 2008).

Zain was launched in Kenya in 2004 as Celtel, formerly Kencell, and rebranded to Zain in 2008. It is part of the Zain Group offering a host of value added services including Prepaid plans, International roaming, Local and international text messages, 24-hour customer care centre, Internet access, Directory enquires, SMS information services, Mobile Top up and Me2U (Zain, 2009). As at the beginning of the year the Kuwait-listed mobile telephone company Zain, now has over three million subscribers in Kenya, double

the number of customers Celtel had before it was taken over and this numbers are steadily increasing.

With more liberalization, the Government of Kenya through its agency the Communication Commission of Kenya (CCK), issued licenses for Local Loop Operators (LLO) and with this was born Flashcom Limited. Launched in 2005, Flashcom provides fixed wireless telecommunications services to the business and individual market segments. Its services include telephony, internet access, fax and SMS services within Nairobi and its environs using the large capacity Code Division Multiple Access (CDMA) Wireless technology. The second local loop operator was Popote Wireless Limited which also had a network covering Nairobi and its environs also running on CDMA.

Telkom Kenya in a bid to survive the competition entered into new partnerships attracting new investments. On 17 September 2008, Orange became the commercial brand for Telkom Kenya, following France Telecom's acquisition of 51% of its capital in December 2007. With these significant developments, Telkom Kenya becomes the first integrated operator in the country, proposing fixed and mobile telephony alongside Internet services-typically known as convergent service. Today, Telkom Kenya aims to increase its customer base to 1.5 million customers within a year (from 500,000 at the beginning of the year), through high quality services and the strength of the Orange brand. As a matter of fact, Telkom drastically reduced its staff numbers and shuffled its management for the right talent mix in the recent months - initiatives that have helped it grow its subscriber base to one million only 10 months since it launched the Orange brand in Kenya (Orange Targets Rival's Clients With New Tarriffs, 2009).

The fourth GSM mobile operator in Kenya is Essar Telecom Kenya Limited (ETKL) operating under the brand "Yu". ETKL officially launched its services in late November 2008 and is regarded as the fastest growing telecom operators in Kenya. The company already has over 600,000 subscribers on its network in Nairobi and Mombasa and it expects this number to grow significantly as it completes its roll out across Kenya by end of the year 2009. ETKL is largely owned by Essar which has significant interests in

telecommunications services, spanning mobile telephony, telecom tower infrastructure, telecom retail and IT/telecom enabled services. It also holds a 33% interest in Vodafone Essar, which is a joint venture with the Vodafone Group, and is one of India's largest cellular service providers, with over 75 million subscribers. Interestingly Essar operates an outsourcing services business under the Aegis brand, with over 33,000 employees globally across 32 delivery centres in the Philippines, Costa Rica, USA, Africa and India (Essar, 2009).

With 34 million residents and a mobile user rate of 30% today, there is an excellent potential for growth in Kenya and every of the four operators are fighting for a share of the market. Previously with two operators licensed Safaricom Limited and Zain Limited both recorded very high growth. Notable was Safaricom's growth, realizing the highest profit margin in East Africa in the recent past. Now with all the four major operators seemingly using similar GSM technology (provided by the same vendor base), it is strategy that will win the battle. Needless to say, most of these Kenyan telecommunication operators are either subsidiary or an investment of the major multinational telecommunication companies. To operate efficiently to meet customer demands, it's important that these companies outsource their various services and concentrate on core activities to maximize their gain.

1.2 Statement of the Problem

Outsourcing is the transfer of the management day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. This enables an organization to focus on its core competences without being burdened the demands of bureaucratic dictate. Key employees are herewith released from performing non-core or administrative processes and can invest more time and energy in building the firm's core business.

With increasing competition from new entrant in the market, the operators cannot continue doing business they did before. With changing technology also, the operators need to change with the new trends in the market so as to thrive. The skilled professionals

cannot be burdened with administrative work hence they need to outsource the non-core activities.

Previous studies on outsourcing strategies are by Makhino (2006). In her study on benefits and challenges of outsourcing Human Resources (HR) activities in commercial banks in Nairobi found out that HR outsourcing is beneficial and that there is no bank that fully out sources HR services. Wandabwa (2006) in his study found out that banks outsource to access world-class capabilities, reduce and control operational costs. Serem (2005) states that outsourcing as a practice is adopted for different reasons, the most outstanding being an organization's deliberate effort to focus on core business. Kinyua (2000) asserts that outsourcing engagement like other contractual engagements is characterized by risks and rewards. Companies need to conduct careful analysis before engaging in outsourcing. Although studies on outsourcing have been carried out in other sectors, very little is known about outsourcing by the mobile phone operators in Kenya.

With this background, the research study is to address the following: - What kinds of strategies are employed by mobile phone operators in Kenya? What challenges do the mobile phone operators face in outsourcing strategy?

1.3 Study Objectives

- i. To establish outsourcing strategies applied by mobile phone operators in Kenya
- ii. To determine the challenges of outsourcing strategy

1.4 Importance of the Study

The study will benefit the academicians both the students and lecturers .The findings will be used by students in doing their research as source of secondary data. Lecturers will use the information to extract lecture notes.

The study can act as a springboard for future studies. Academic researchers use other studies to source more information and establish research gaps. This is from the suggested areas for further research and as well replica studies for further study.

The findings will be useful to strategy managers in knowing the benefits they can accrue by outsourcing. Also what factors to consider before outsourcing and what challenges they are likely to face and how to overcome them.

The findings are a motivation to making new policies in the industry. The study will reveal loopholes in the industry, which can be used to make policy changes and as well formulate new policies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Outsourcing Strategy

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business to make more efficient use of land, labour, capital and technology. Outsourcing became part of the business lexicon during the 1980s. It is essentially a division of labor (The Outsourcing History of India, n.d.).

Outsourcing involves the transfer of the management day to day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract.

Business segments typically outsourced include information technology, human resources, real estate management and accounting. Many companies also outsource customer support and call center functions like telemarketing, Computer Aided Design drafting, customer service, market research, manufacturing, designing, web development, content writing, ghostwriting and engineering.

With increasing globalization, the distinction between outsourcing and offshoring will become less clear over time. This is evident in the increasing presence of Indian outsourcing companies in the United States and United Kingdom. The globalization of outsourcing operating models has resulted in new terms such as nearshoring, noshoring, and rightshoring that reflect the changing mix of locations. This is seen in the opening of offices and operations centers by Indian companies in the U.S. and UK. A major job that is being outsourced is accounting. They are able to complete tax returns across seas for people in America (The Outsourcing History of India, n.d.).

Strategic outsourcing emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm's value chain (Holcomb & Hitt, 2007). Such an arrangement produces value within firms' supply chains beyond those benefits achieved through cost economies. Intermediate markets that provide specialized capabilities emerge as different industry conditions intensify the partitioning of production. As a result of greater information standardization and simplified coordination, clear administrative demarcations emerge along a value chain.

Partitioning of intermediate markets occurs as the coordination of production across a value chain is simplified and as information becomes standardized, making it easier to transfer activities across boundaries. Due to the complexity of work definition, codifying requirements, pricing, and legal terms and conditions, clients often utilize the advisory services of outsourcing consultants sourcing advisory or outsourcing intermediaries to assist in scoping, decision making, and vendor evaluation.

Outsourcing as an approach to strategic alliances, firms gain a competitive advantage. Corporate use of outsourcing has increased dramatically in recent years as corporations realize its tremendous benefits. Significant changes within many segments of American business have encouraged the use of outsourcing practices. Within the healthcare arena, an industry survey recorded 67% of hospitals using provider outsourcing for at least one department within their organization. Services such as information systems, reimbursement and risk as physician practice are outsourced by 51% of the hospitals that use outsourcing (Pearce & Robinson, 1997).

According to Hills and Jones (2001) outsourcing occurs when one company contracts with another to perform one of the value creation functions on its behalf. Increasingly, many companies are finding it very difficult to keep up with the pace of technology change in the computer software industry and are outsourcing their data processing needs to specialized software companies. Others are outsourcing their website design and management needs. Electronic Data Systems (EDS), IBM & Computer associates are

some of the computer giants that manage other companies' data processing and website operations using their own proprietor software.

Strategic outsourcing involves separating a company's value creation activities within a business and letting them be performed by a specialist in that activity. It's concerned with reducing the boundaries of the company and focusing on fewer value creation activities. The activity to be outsourced may encompass an entire function like manufacturing or it may entail an activity embedded within a function.

Many companies for example outsource management of their pension systems, while keeping other human resource function activities within the company. One survey found out that some 54% of the companies polled had outsourced manufacturing processes on services in the past three years. Many high technology companies for example outsource most of their manufacturing activity. Cisco, which is in the router & Switch business, does not manufacture routers & switches (Hills & Jones, 2001).

A useful application of outsourcing is found in human resources. A survey of human resource executives revealed 85% having personal experience with leading an outsourcing effort within their organization. In addition it was found that 2/3 of pension department has outsourced at least one human resource function. Within customer services and sales departments, outsourcing increased productivity in such areas as product information, sales and order taking, sample fulfillment and complaint handling (Pearce & Robinson, 1997).

Companies engage in strategic outsourcing because they believe they can better execute their business model by doing so and thus increase profitability. The process begins with identifying the value creation activities from the basis of its competitive advantage. The idea is to keep performing these activities within the company. The remaining activities are reviewed to see whether independent companies that specialize in that activity at a lower cost or perform them in a way that leads to better differentiation can perform them more effectively and efficiently.

2.2 Outsourcing Strategies

2.2.1 Focus Strategy

In intensely competitive environments, many companies see outsourcing as a way to hire “best in class” companies to perform routine business functions and then focus corporate resources on key activities in their value chain where the impact will be felt the most by the customer. This is the strategy that has helped Nike to capture and sustain leadership in the athletic footwear and apparel industry for most of the last three decades (Bendor-Samuel, 1999).

The strategy of focusing corporate resources mainly on those activities where clear differentiation can be developed and outsourcing much of the rest, has also served many other companies well. The key often lies in knowing which of the main value drivers to concentrate on customer intimacy, product leadership or operational excellence. All three are key to delivering value to customers, but the organizational capabilities and cultures that promote them are not the same, and often tend to pull in different directions.

In some companies for example, Nike has tended to focus primarily on product leadership and Dell on operational excellence and customer relationship management, and both rely on the competencies of others to help them deliver value in other areas. The appeal of such a strategy continues to widen, even into some of the most traditional sectors. Today, for example, many newspapers now tend to concentrate mainly on the customer relationship area, outsourcing much of their content and most of their printing and distribution (Lei & Slocum, 1992).

2.2.2 Scaling Without Mass

This is a strategy that offers companies the opportunity to grow in market presence without a corresponding expansion in organizational size or bureaucracy. Strategic outsourcing can help a rapidly growing company avoid a premature internal transition from its informal entrepreneurial phase to a more bureaucratic mode of operation. In this way, outsourcing allows firms to retain their entrepreneurial speed and agility, which they would otherwise sacrifice in order to become efficient as they greatly expanded (Fahey & Randall, 2001).

2.2.3 Disruptive Innovation

Outsourcing is a key element in many of the most impressive examples of disruptive innovation to date. The primary aim of most disruptive innovation is to create a whole new segment at a price point well below the bottom of the current market and then to dominate this segment as it grows. This usually requires the development of an innovative business model capable of producing overall returns at least as good as those of the leading incumbents, but doing it at significantly lower cost through much higher asset productivity (Bendor-Samuel, 1999).

Outsourcing has been a prominent feature in the business models of other classic disruptive innovators over the years. Outsourcing is also prominent in the business model of Ryanor, the disruptive innovator in the European airline industry the self-styled (Christensen & Raynor, 2003).

2.2.4 Strategic Repositioning

Strategic repositioning is rarely easy, especially to a long-time industry leader. If customers were going to look to an integrator to help them envision, design, and build end-to-end solutions, then the companies playing that role would exert tremendous influence over the full range of technology decisions – from architecture and applications to hardware and software choices. Traditionally IBM's strategy had always stressed service as a distinguishing feature of its value proposition, but this was service tied to products (Treacy & Wiersema, 1993).

2.3 Process of Outsourcing

The decision to outsource according to Armstrong (2006) should be based on rigorous analysis and benchmarking to establish how the organizations manage their activities. This will define, the level of service required. The cost of providing the existing service internally should also be measured. This will be easier if an activity based costing system is used in the organization. It is necessary to assess each potential area with great care in order to determine whether it can and should be outsourced and what its intended to achieve.

In selecting service providers, potential providers should present tenders in response to a brief. Three or four providers should be approached so that a choice can be made. Selection should take into account the degree to which the tender meets the specification, the quality and reputation of the firm and cost. The contract should be very clear about services, cost and the basis upon which it can be determined (Armstrong, 2006).

Bendor-Samuel (1999) outlays a five step model to ensure a fair outsourcing deal throughout the life cycle. The first stage is investigation .This is where existing processes and systems are reviewed. The objectives and scope of outsourcing are defined and feasibility determined before a decision to proceed. The effort is planned in terms of time, budget and resources needed, level of service required by the vendors are specified and an interface being services to be outsourced and those to be left in the house are identified after which a request for proposal is developed. The second stage is tendering. Knowledge gained from benchmarking is incorporated to set up optimum performance targets for the organization. This helps identify the serious contenders for the business and spells out that world- class performance is expected and will be measured.

Before negotiation is done it is critical to set the right expectation for cost performance and service levels. The negotiation position is reinforced by external validation of the organizations requirements. Two notable approaches in the selection of vendors are single sourcing and procurement through request for a proposal. In sole sourcing a client firm approaches a vendor and appoints it to perform a service after negotiation. There is no competitive bidding in this option. Request for proposal is the tradition approach that has been used in competitive bidding among potential vendors. An RFP is created in the format of the day and distributed to several service providers or place in public information media. Though it is time consuming and costly many big organizations choose this approach for transparency purposes.

After negotiating, it then follows Implementation. A contract is developed, reviewed and signed after which its performance starts. Service level agreements are put in place detailing process maps, responsibilities and implementation of key performance indicators, structures and reporting lines are defined and implemented. Finally, there is

the aspect of relationship management. Benchmarking is most commonly employed in here. The outsourcing deals are renegotiated. Several organizations have had to renegotiate contracts within two years of being signed. Usually dissatisfaction over pricing and service levels are the main drivers for renegotiations.

2.4 Effective Outsourcing

Gay and Essinger (2000) put forward requirements for successful outsourcing. First, the initiative is likely to work if it has been a subject of thorough investigation. All options should be carefully considered, ranked against agreed criteria and then weighted according to risk. Randall (1993) asserts that a strong need for outsourcing has to be identified. Organizations undergoing rapid change due to changing internal and external environments are likely to benefit from outsourcing.

Secondly, after the initial investigation, a business case has to be set out for it. This will cover financial and non- financial issues. The business case covers strategic context, current conditions, options, benefits, costs, sensitivity analysis and risks (Gay and Essinger, 2000). Randall (1993) concurs with the view and emphasizes that a comprehensive feasibility study need to be carried out to benchmark existing practices and identify opportunities for improvement. Thirdly, the right supplier has to be identified. Armstrong (2006) maintains that potential service providers should present tenders in response to a brief. Three or four providers should be approached so that a choice can be made. Selection should take into account the degree to which the tender meets the specifications. Gay and Essinger (2000) adds that clear selection of a supplier requires a definition of what the supplier is to do, the result measurement criteria and how the ongoing relation is to be managed.

Lastly, management commitment must be sufficient to overcome the roadblocks that will undoubtedly emerge for the outsourcing project to work, there is need for a senior manager, committed to act as a sponsor of the project and guide it from ideal to reality (Randall, 1993).

2.5 Trends in Outsourcing

After analyzing the challenges and the importance of strategic thinking in knowledge-intensive industries it is now time to show some current and future trends and strategies. Companies are acting in more and more turbulent markets and are forced to react ever faster given the opportunities and risks they face. Global competition is becoming stronger and innovation cycles and product lifecycles are growing ever shorter. At the same time, a greater diversity of products is flooding the market, with much faster delivery times than even two years ago (Gereffi & Wadhwa, 2005).

They will have to further cut costs, especially by transforming fixed costs into variable costs through resource reallocation. Continuously examine the external environment for new opportunities to grow and develop their business. This can be done through Research & Development and global expansion through mergers and acquisitions. They will have to be more reactive and adapt to market changes and this also includes the internal environment. Market challenges require changes and adjustments within the corporate structure. They will have to create smaller entrepreneurial units to increase flexibility and the reaction speed to these changes (Boetzel, et al. 2002).

One of key factors to achieve these goals is the implementation of knowledge outsourcing in the overall corporate strategy. But even the best outsourcing strategy is worthless if it is not communicated to the service vendor adequately. Only if both partners understand the outsourcing of knowledge-intensive processes as a strategic tool can both of them benefit, and only then can it provide all of the success factors mentioned above. But even if the executives know about the importance of outsourcing, they might not know how to do it best.

According to Corbett (2005), there are some good ways to improve the outsourcing success rate. One of them is training. It is important to know what, where and how to outsource. This should be the subject of internal and external analysis, and training sessions should be conducted with outsourcing experts who have a deep understanding of the industry and who know how to create and manage outsourcing relationships.

Offering Standard Certificates will go along way to verify the reliability of outsourcing vendors. This will be professional certification based on recognized industry standards. Standards for outsourcing professionals, such as those being developed by the International Association of Outsourcing Professionals (IAOP) and the Outsourcing Standards Board (OSB) will bring better skills and more professionalism to the knowledge outsourcing industry. Standards for security quality, scope definition, financial analysis, contracting, pricing, negotiating, contract management, and dispute resolution will help both sides to set up their outsourcing business.

Goal Orientation is essential in every industry. It is very important to find evaluation criteria in order to be able to improve the outsourcing strategy based on facts and not on opinions. Although it is so important, very little work has been done to establish a benchmarking system for high-performance outsourcing outcomes and to identify the processes that lead to superior results. Here it is up to the partners to find individual criteria to determine the success of the outsourcing process.

Challenge the providers to deliver the best. It is no longer good enough to offer customers a better, faster, cheaper solution for something that they are already doing today. If providers want to convince customers to change their outsourcing strategy from project-orientated to process-orientated, they must work with their clients to keep developing and implementing new solutions well ahead of their customer's needs. This implies that the providers have to develop deep domain expertise and know-how and invest in R&D just like any other industry if they are to continue to out innovate and out-perform their customers.

Technology helps to improve the flow of information and management's control. Tools such as knowledge- and project management help companies improve their outsourcing ROI in three different ways. They avoid duplication of services and billing errors, increase the quality of outsourcing processes and reduce the management costs that tend to grow exponentially as the amount of outsourcing activities increases. Using technology to link all of the company's internal and external people and processes will enable

companies to build and manage the strategic outsourcing partnership much more efficiently.

Governance and Management is critical. Long-term orientated outsourcing programs require governance and ongoing management to ensure success. Governance ensures that the client and the supplier understand the what, when and how of outsourcing, along with the role each partner plays. One way to solve this conflict is to determine a process framework. On-going Management ensures that return on investment does not just come from labor arbitrage solely, but also from improved productivity.

As already suggested, this task can be managed by outsourcing management office. The most successful outsourcers invest 5-8 percent of the contract value in governance and on-going management (Corbert, 2005). This investment ensures that the value of costs, productivity, quality and speed are captured now and in the future. In outsourcing industry, it is very hard to predict how this new trend will evolve. But if this outsourcing discipline is to continue to grow over the next five to ten years as it has over the past five, organizations need to produce better results with greater regularity and at lower costs. To achieve this it will take a stronger consideration of knowledge outsourcing on the strategic level across the global community of outsourcing professionals, customers, providers and advisors alike.

2.6 Importance of Outsourcing Strategy

Johnson and Scholes (2004) say that it may be possible to reduce cost by outsourcing those activities where an organization is not experienced. It allows a company to concentrate on its core business, leverage its key resources and do even better what it already does best. A company is better able to build and develop its own competitively valuable competencies and capabilities when it concentrates its full resources and energies on performing those activities internally that it can perform better than outsiders (Thompson et al, 2007).

According to Hills and Jones (2001) the trend towards strategic outsourcing is being driven by a realization that outsourcing can lower cost structure of a company and help it to differentiate its products offerings in market place better thereby strengthening its

business model and boosting its profitability. In addition, strategic outsourcing of non-core activities helps the company to focus management attention on those activities that are most important for its long-term competitive position.

Hills and Jones (2001) emphasizes that a company may be able to differentiate its final product-offering better by outsourcing certain non-core activities to specialists. The quality of activity performed by specialist could be greater than if the company performed that same activity. A specialist may be able to achieve a lower error rate because it focuses on that activity and has accumulated competencies in total quality management.

Outsourcing improves a company's ability to innovate .Collaborative partnership with world class suppliers who have cutting edge intellectual capital are early adopters of the latest technology give access to ever better parts and components. Such supplier driven innovations when incorporated into a company's own product offering, fuel company's own new improved products (Thompson et al, 2007).

Technological competence may be achieved by outsourcing. Companies are able to take advantage of new technology that they previously might not have had access to. Migrating to newer technologies allows companies to make better use of their investments and enjoy enhanced productivity and quality. Companies with outsourced IT processes are better enabled to migrate to new technologies with minimum downtime and productivity disruption (Thomas & Leslie, 2002).

Another common reason for outsourcing is to achieve headcount reductions or minimize the fluctuations in staffing that may occur due to changes in demand for a product or service. Companies also outsource in order to reduce the workload on their employees to provide more development opportunities for their employees by freeing them from tedious tasks. Apart from the financial benefits associated, another reason why companies outsource work is to have processes delivered by teams that have operational expertise in the outsourced process. Outsourcing gives companies access to world-class capabilities and infrastructure in the outsourced function (Holcomb & Hitt, 2007).

Morale is an often-overlooked but still notable benefit that can sometimes be gained by initiating an outsourcing relationship. "Often a business's lack of internal expertise or dedication to non-core tasks results in poor attitudes and ultimately poor performance," wrote Kevin Grauman in CPA Journal. "This can lead to overlap and duplication of internal efforts. An effectively designed and ongoing communication process emanating from one or more outsourcers can greatly reduce or eliminate these duplications".

Outsourcing promotes accountability. Outsourcing is predicated on the understanding shared by business and vendor. Such arrangements require quality service in exchange for payment. "Paying for a business service creates the expectation of performance," stated Grauman. "Outsourcers are well aware that this accountability is both practical and legal, with fiscal implications. The same cannot be said for internally provided functions." Outsourcing to countries such as India has a time zone advantage. Your night will be India's day. With this advantage, your outsourcing partner can complete critical work and send it to you the next day. Thus, outsourcing partner continues work even after employees go home. This enables the work to be completed much faster and gives your business a competitive advantage.

Thompson et al. (2007) further argue that, outsourcing allow a company to assemble diverse expertise efficiently. A company can nearly always gain quicker access to first-rate capabilities and expertise by partnering with suppliers who already have them in place than it can by trying to build from scratch with own company personnel.

According to Thompson et al. (2007) outsourcing reduces the company's risk exposure to changing technology or changing buyer preferences. When a company out sources certain parts, components or services its suppliers must bear the burden of incorporating state-of-the art technologies and or undertaking redesigns and upgrades to accommodate a company's plan to introduce next generation products. If what a supplier provides falls out of favour with buyers or is designed out of next generation products, it's the supplier business that suffers rather than a company's own internal operations.

Outsourcing streamlines company operations in ways that improve organizational flexibility and cuts the time it takes to get new products into the market place. Out

sourcing gives a company flexibility to switch suppliers in the event that its present supplier falls behind competing suppliers with the needed capabilities already in place is frequently quicker, easier, less risky and cheaper than hurriedly retooling internal operations to replace obsolete capabilities or try to install and master new technologies (Thompson et al., 2007).

Outsourcing offers companies the opportunity to grow in market presence without a corresponding expansion in organizational size or bureaucracy. Strategic outsourcing can help a rapidly growing company avoid a premature internal transition from its internal entrepreneurial speed and agility which they would otherwise sacrifice in order to become efficient as they greatly expand.

2.7 Challenges of Outsourcing Strategy

Despite the many cost and effort advantage, the potential problems associated with outsourcing have led many companies to decline to make use of external service providers. Collins and Montgomery (1995) reports on a consulting survey that indicates that outsourcing customers must push for innovations, co- ordinate the activities of various suppliers and understand just what services has been supplied.

One of the key arguments for outsourcing is that when specialists perform task they are able to do it better, where better is defined as more service for less cost. .A key question must therefore be whether the costs associated with external provision are less than those generated by internal providers. Organizations embarking upon outsourcing contracts are likely to find the actual costs higher than expected costs (Wendy, 1997).

One of the biggest problems that result from transferring skills to external body is the difficulty of regaining them when necessary. If the external acquisition of software through buying packages de- skills internal development staff and makes future internal development work impractical, de-skilling management and operations have even wider implications for future actions (Wendy, 1997).

Hills and Jones (2001) sees the risk of scheduling activities. The essence of the problem is that if the company is not careful, the signals sent down a supply chain can be distorted by practices such as double booking when supplies of inputs are in short supply. This is a potential problem that has to manage demand and a long supply chain. A company that is not careful can lose important information. Many computer hardware and software companies outsource their customer technical support specialists. A critical point of contact with the customer and feedback is lost. Customer complaints can be useful piece of information and a valuable input into future product design (Hills & Jones, 2001).

Staff working conditions are not the only people issues in outsourcing. Hendry (1995) presents a discussion of the value of the informal, human links within an organization and argues outsourcing dramatically alters the informal structure of an organization within which humans operate. This disturbance is problematic itself since outsourcing will reduce the degree of shared understanding between various groups and hence their ability to communicate. Outsourcing will also place people as outside the organization and reduce the extent to which they are motivated by the well being of that organization.

A company can better control access to information and protect equipment when it is in house. This can include confidential company data, Intellectual Property and knowledge in general. To curb this, choose a partner with international security standards such as the ISO certification. The quality of personnel and work cannot be guaranteed. Corporations risk low quality work or massive delays in work because they are in the hands of the outsource service provider. Besides quality, companies also can loose the knowledge they require to function. If a service provider goes bankrupt, the firm could be in a dire situation. The company cannot even temporarily resume the outsourced roles because the internal knowledge has been lost (Chanvarasuth, 2005).

Another drawback is the idealized expectations regarding the return on investment and the time it will take. Many firms envision drastic cost savings of up to 80%. A company looking for a quick solution will be frustrated. Outsourcing goals that are too high are never reached and they often lead a company to believe that it failed in its

implementation when it still achieved major gains. In most cases outsourcing can only show its real potential if it is long-term and partnership oriented.

Additionally, legal, language and cultural barriers can cause serious problems. Differences in dealing with problems and conflicts, and a lack of communication between the outsourcing partners can cause friction and inefficiencies. Both companies need to respect each other's corporate and national cultures and find mutually beneficial ways to develop successful cooperation (Kakumanu & Partanova, 2006).

Quality of service is measured through a service level agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price.

The cost of negotiating, managing, and overseeing a detailed contract can also be great. To alleviate some of the risks, a good contract with appropriate incentives, penalties and benchmarks is very important. On the other hand, the protectionist lobby and their anti-BPO drive in the USA and Europe are indirectly helping the proliferation of global off shoring by providing free publicity. Hence this drive has increased not only India's but also China's, Russia's and Mexico's brand images because companies now feel that these outsourcing companies are capable of almost anything. It is very likely that this protectionist movement will help these low-cost companies to improve their brand image and thereby move up the value chain even faster (Aggrawal & Pandey, 2004).

Companies can often be attracted to outsourcing as a means to relieve intensifying competitive pressure however if they fail to consider long-term implications they might unwillingly mortgage their future opportunities for short term advantage like prematurely existing a market, hasty and near sighted outsourcing may result in the loss or unintended transfer of critical learning opportunities (Thompson et al., 2007).

Outsourcing at the wrong time in a market evolution is bad for a company. Strategists also need to know when in an industry's evolution and where along its value chain the economic favour outsourcing. They also need to be aware how this tends to change overtime, particularly in technology markets. According to disruptive innovation authority, Clayton Christensen, the critical transition is when the market changes from stage where most customers continue to desire more functionality than it currently offered to the point where majority of customers come to see themselves as being over served with features. This is the juncture when the product rapidly becomes a commodity and where the primary basis of competition shifts to aspects of the value proposition beyond-technology such as price, speed, convenience and customization (Armstrong, 2006).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study used a survey design that involved collecting standardized information from a carefully selected sample of people. The data was generally collected through personal interviews. The strength of a survey design is that it produces comparable information across the surveyed population. This study suits this scenario and is therefore the appropriate study design was found to be survey method.

Surveys are particularly useful where the researcher want to get a cross sectional picture of a phenomenon. This study used a cross-sectional survey design to assess the kinds of outsourcing strategies used by Mobile Phone operators in Kenya and establish the challenges they face.

3.2 Data Collection

Primary data was collected through personal interview method. The data, which was qualitative in nature, was collected by interviewing five senior level managers responsible for outsourcing. They were drawn from the following departments namely, Human Resources, Operations, Procurement, Marketing, Finance and Administration. These were from the six telecommunication operators in Kenya which are Safaricom Limited, Zain Kenya, Telkom Kenya, Essar Telecom Kenya Ltd, Flashcom Limited and Popote Wireless. The managers were purposively picked based on their strategic positions in regard to outsourcing and decision making in their organizations.

The collecting instrument was a semi-structured interview guide which was more flexible, provided the interviewer with greater control of the interview situation and gave the opportunity to probe further. Questions were administered and probing done in some structured way so as to get in-depth information from respondents. The interview guide comprised of three sections. Section A covered organization's bio data, section B outsourcing strategies used by various players while section C dwelt on the challenges of outsourcing

3.3 Data Analysis

The data, after collection, was analyzed in accordance with the objectives of the study. The researcher was finding out the outsourcing strategies mobile phone operators in Kenya use and the challenges they face while outsourcing. The analysis was done by comparing the collected data with the theoretical approaches cited in the literature review.

Content analysis procedure was used to analyze data considering the qualitative nature of the data collected through in-depth personal interviews. This technique uses a set of categorization for making valid and replicable inferences from data to their context. The data was broken down into the different aspects of outsourcing strategies. This resulted into a systematic and qualitative description of the objectives of the study.

In the course of the survey, the researcher examined raw data using many interpretations in order to find linkages between the research object and the outcomes with reference to the original research questions. Throughout the evaluation and analysis process the researcher remained open to new opportunities and insights to strengthen the research findings and conclusions.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

The primary data was collected from the heads of departments, the Human resources, Operations, Administration and procurement. All information gotten was through personal interview. The key challenges of cost, government policies and legal are qualitatively analyzed.

4.2 Outsourcing Strategies Used by the Players in the Market

The key outsourcing strategies identified by the respondents are contingency, risk mitigating, strategy units/block strategy, management control strategy and cost reduction strategy. In Safaricom, contingency and risk mitigating strategies impacts positively. This helps on maximizing operation costs and speed up service delivery. In other operators the strategies employed include cost reduction and business performance.

In most organizations the top management comprising of the Chief Executive Officer (CEO), human resource and procurement departments are in charge of developing outsourcing strategies in consultation with the relevant departments and sections.

4.2.1 Reasons for using Outsourcing Strategies

The organizations mainly employ use of these strategies to maximize operation costs by cutting down on unnecessary operation expenditures. Other reasons cited for outsourcing are enabling the organization concentrate on its core business therefore being able to compete effectively in the ever competitive environment, ensure good service delivery by speeding up service delivery.

4.2.2 Impact of Outsourcing

The organizations derived quite a number of benefits from employing outsourcing strategies. Outsourcing strategies have enabled the organizations to operate profitably as resultant of efficient and effective process. The Procurement department plays a major

role by sourcing goods and services from organizations that are well conversant with the service being outsourced.

Most organizations that took part in this survey indicated they were satisfied with the services they get from outsourcing. The outsourcing strategy has enabled the organizations streamline their operations which have mainly resulted to the following key benefits. Increase in market shares and customer base. With outsourcing the company is able to concentrate on its key business. This improves the performance of employees who focus on what they are good at and the result is higher profit and a wider customer base.

It's revealed from the findings that there is improved quality of service delivery to customers. By outsourcing to professionals, services improved and customers seemed more satisfied with the services. On the other hand employees had less on their hands and concentrated on what is core to the company. More time was given to customers to make follow up calls on their satisfaction levels.

The findings indicated that there was a saving on operational costs. A company benefits from economies of scale by concentrating on its area of strength .With outsourcing the non core business activities to an outsourcing company, a company is able to save on the operations cost.

It was also revealed that there was improved performance and development of the employees through regular trainings. With fewer employees it becomes cheaper for a company to take the employees to specialized training. It is also easier to monitor their performance levels and identify their weak areas that need training.

Table 1 shows the services outsourced by mobile phone operators. One can deduce that Print/design and marketing services are the most outsourced services by telecom companies in Kenya today. The ones are least outsourced are call Centre and application development. There are the reasons that explain that which will be covered in the challenges of outsourcing strategy.

Table 1: Number of outsourcing contracts entered by telecom companies in Kenya in 2008

Type of contract	No. of contracts
Print/design	18
Applications development	1
Network management & operations	3
Web services	2
Hardware maintenance & servicing	3
Procurement	7
Trainings	3
Marketing	16
Call centre	2
Innovative communication	3
Total number of outsourcing contracts	58

4.3 Challenges of Outsourcing

Despite many benefits telecommunication companies currently operating in Kenya derive out of employing different outsourcing strategies, there are a number of challenges that come with outsourcing. The results show various challenges of outsourcing. Cost, knowledge and required skills, government policies, loss of control in areas of business outsourced and economic down turn.

The findings reveal that outsourcing is expensive owing to limited operational budgets that most companies have. Cost plays a major factor in determining which services needs to be outsourced and from which organizations. To overcome this challenge, companies employ prudent management of invested capital to get higher leveraging on cost. Bearing this in mind, companies resort to outsourcing only absolutely necessary services to ensure the company gets value for money. Outsourcing contracts awarded to competent persons.

The availability of skilled personnel remains a major challenge. When embarking on any outsourcing projects, most companies are forced to either recruit professionals in that field or train staff on those areas. This usually comes at cost. Trainings are regularly conducted to make the staff more effective and familiar with outsourced services. There is usually a general fear amongst employees whenever their organizations resort to business outsourcing. These fears are mainly guided by resultant organization rearrangement that at times led to job losses.

The current market environment is another challenge. The telecommunication industry has become very competitive based on the new technological developments, number of players in the market and the current economic downturn. This is not made easier especially when dealing with today's consumers who are highly informed and demanding. To compete effectively in this market, companies keep on developing or redefining their products and services to match the current economic and market conditions. To overcome this challenge, it is prudent to allocate contingency funds to cover any financial risk which might be caused by factors of demand and supply. There are key players who strongly feel that there can never be a wrong time in the market, what really makes the difference is the approach employed by different companies. Whereas others are forced to either review their budgets to match the current existing market/ economic situation or worse still shelve off some projects and contacts.

Government policies are at times prohibitive posing yet another challenge. There is a limitation in technocrats you can engage at a given time. Lobbying should be done for the government to come up with friendly policies that would attract more investors to this sector. This will bring down cost of outsourcing and would encourage more companies to engage outsourcing companies. Clearly, the benefits of outsourcing are quite enormous. The government should consider outsourcing some of its operations to ensure efficiency and better service delivery at a reasonable cost.

Outsourcing involves agreements between parties and this creates legal barriers when it comes to interpretation of terms of engagement or disengagement. The legal agreement should be done in the presence of advocates for the two parties. Companies insist on complete adherence to terms and regulations of the contracts by the two parties. Any party defaulting should be heavily fined or be sued to allow the law to follow its due course.

In the business world today, organizations employ people from different cultural backgrounds. This of course comes with its own unique challenges. There are usually policies in place to ensure there is no segregation or racism within the organization such as ensuring all staff use languages that are universally understood.

Some outsourcing engagements fail due to poorly negotiated contracts. The contracts could be ambiguous, vague or non-existent. To ensure there are no hiccups, negotiations are usually done by the top level management and procurement department who are well versed with this art. Proper guidance from legal experts with the know-how is highly advisable.

CHAPTER FIVE: DISCUSSION, SUMMARY AND CONCLUSIONS

5.1 Discussion, Summary and Conclusions

5.1.1 Introduction

This research study is to address two objectives. The first is to determine the outsourcing strategies mobile phone operators in Kenya use. The second objective is to establish the challenges the operators face in outsourcing strategy. This chapter therefore covers the summary and discussions of the strategies employed and the challenges encountered in relation to the literature review and the conclusion drawn from the analysis.

5.1.2 Outsourcing Strategies Used

In addressing the first objective, the results show that the outsourcing strategies currently used are contingency, risk mitigating, strategy units/blocks and management control. One of the operators has benefited from the use of contingency strategy. The cost of printing and design has drastically gone down which is in agreement with Johnson and Scholes (2007). Other benefits the operator accrued were improved performance and development of employees through regular training. More benefits to note are increased profit through increased sales volume and customer base which in line with Thompson et al (2007).

The findings show that the use of management control has impacted positively in cutting down on operation costs. This is in line with the argument of Johnson and Scholes (2007). From the findings, another operator stipulates that there is positive growth through reduced operation cost and increased organization savings.

In conclusion, it is clear from the findings that the mobile phone operators in Kenya employ strategies different from those used by other operators outside Kenya. The outsourcing concept is rather new in the country and with time the Kenyan players may adopt the strategies of focus, scaling without mass, disruptive innovation and strategic repositioning.

5.1.3 Challenges of Outsourcing Strategy

In addressing the second objective, the results show that the organizations encounters key challenges from high cost of outsourcing, government policies, knowledge and skills required, legal barriers, loss of control in areas of business outsourced, cultural and language barriers. Cost is usually the greatest motivator of outsourcing. However, the findings reveal that the cost of negotiating, managing and overseeing a detailed contract great. This goes hand in hand with the argument of Aggrawal and Pandey (2004) and Wendy (1997).

The findings reveal that there is loss of control in areas of business outsourced when skills are transferred to an external body, they are hardly regained. The same sentiments are shared by Wendy (1997). The findings further reveal that the problem of cultural and language barriers. This is in regard to respecting people's practices and values and use of language that is simple and that can be understood by everyone. This is in line with Kakumanu and Partanova (2006) who argues that lack of communication between outsourcing partners can cause friction and inefficiencies.

In conclusion, the strategy of outsourcing is very noble. Despite the many challenges, there are many ways of overcoming them. The major set back in cost and therefore the players should ensure prudent management of the invested capital to get higher property and knowledge. The staff should be trained to make them more familiar with the outsourced services. To keep the privacy of its operations, the government should come up with legislations that govern outsourcing.

5.2 Limitations of the Study

The data was collected from all the target respondents, however the limitations of the study was that some respondents could not easily understand the questions, and the type of the responses expected from them and therefore the concepts had to be explained in a more simplified and understandable language. A few respondents had difficulties in providing comprehensive responses falling outside their areas of specialization and

therefore getting in-depth information of some specific issues required further clarification.

5.3 Recommendation for Further Research

The study is on the challenges of outsourcing strategy by mobile phone operators in Kenya. The challenges are many and especially with the fast changing technological and economic environment. Cost seems to be very pronounced that is adversely affecting the operations costs of the operators. With the fibre optic cable recently laid in Kenya, it is expected that the cost of business is to get cheaper. Further study can be carried out on the impact of Fibre optic cable on outsourcing Services.

The study only focused on challenges of outsourcing strategy by Mobile phone operators in Kenya. The telecommunication industry is quit vast and a study on the benefits and challenges of outsourcing in the telecommunication operators in Kenya will bring a pool of knowledge in this very competitive industry.

5.4 Implications for Policy and Practice

Individual business policies adopted by the governments can impact the way business is done. Government can have control over the outsourcing policies, so that jobs are not outsourced indiscriminately. Ensuring a stable economic environment is prerogative of every government, but the world economy cannot be put on balance to attain such a balance. Outsourcing has been number one player in world economy globalization, economic growth, and generating employment. So one would need to think about policies that are mutually exclusive of the benefits they provide by retaining jobs the country as well as overall growth.

Proper consultation before outsourcing is necessary for companies .This is by doing research on the area of interest. A good survey will analyse the situation and help the members of the management to make the right decision to achieve the desired goal. This in return assists in knowing the best player in the market who delivers services on time and avoid the non performers.

Mobile phone operators need to ensure that they have necessary skills and knowledge before outsourcing. It is very prudent to train the staff to become more conversant with the work and improve on their competence. Investing in technology is good for the players in the industry for this keeps them ahead of competition from other players in the wider telecommunication industry. New developments in the developed countries should always be seen as an eye opener which is key to the growth of the industry. It is therefore necessary to read widely on any developments on outsourcing and benchmark the company services with the international standards.

The members of the management should be ready to embrace change. Any new technology coming up should be looked at as an opportunity. The arrival and laying down of the fibre optic cable signals the onset of a whole new era in the telecommunications industry, especially the data services in the East African region. The cable is expected to accelerate the country's economic growth through offering easy and faster Internet access services and bring down the cost of connectivity. It will be boon time for bloggers and tech savvy professionals, who largely depend on the internet to transact business, publish and share e-resources.

Telecommunication companies and call centres are also set to enjoy reduced cost of operation because they will switch from costly satellite connection to undersea cables. The cost of bandwidth which is about \$9,000 (Kshs. 720,000) a mega byte would come down to \$5,000 (Kshs. 400,000). It will also enable e-teleconferencing which means companies can hold conferences online instead of physical meetings (Kenya BPO & Contact Centre Society, n.d.).

There is a need for companies to involve all the stakeholders and all departments which will be affected in order to prepare them for the new changes that will affect organization image and its business. This makes them feel part of the change and take it positively and work towards achieving the company goals.

It is prudent to encourage more players in the market to take up the outsourcing areas of business. This brings about competition which in turn leads to quality of outsourced

services. More players also bring in variety and the people who benefit in the end are the consumers.

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APPENDICES

Appendix: Interview Guide

My names are Petronilla Mwikali Kalamu. I am a graduate student in Master of Business Administration at the University of Nairobi. As part of my master's program project work, I am gathering data on challenges of outsourcing strategy by mobiles phone operators in Kenya. The data collected will be used to generate knowledge that will help in better understanding the role of outsourcing strategy in creating and sustaining competitive advantage in organizations.

Kindly help the research assistant with your input by completing this questionnaire. Your participation in this survey will remain anonymous unless you otherwise wish to be acknowledged. No one will contact you for additional information or solicitation.

The survey takes approximately 35 minutes to complete.

Section A: Organization's Bio data

1. Year of Establishment:
2. Physical location:
3. Size of the organization:
4. Number of branches.....
5. Number of employees.....

Section B: Outsourcing strategies used by players in the industry

6. What outsourcing strategies do you use?.....
.....
7. State why your organization uses the strategies.....
.....
8. How effective is each strategy that your organization uses?

.....
9. In your organization who is in charge of coming up with the outsourcing strategy?
.....

.....
10. Please give a brief explanation on the following issues.

Are you satisfied with the outsourced services?
.....

If no, why?.....

Does your organization have the skills to manage outsourcing?
.....

Can the Government Agencies and firms outsource more work?
.....

Is there any benefit associated with cost reduction while outsourcing?
.....

Is there any benefit you derive in cost reduction through outsourcing?
.....

Are there any benefits accrued from outsourcing.....
.....

Is there any benefit associated with gain time while outsourcing?
.....

Does the organization have the full capabilities to handle outsourced projects?
.....

As an employee do you feel job threat when they outsource?
.....

Types of Activity	Year 2008	
	No. of Contracts	Total Value
Print/Design		
Applications Development		
Network Setup		
Network Management & Operations		
Web Services		
Database Services & Operation		
Hardware Maintenance & Servicing		
Procurement		
Trainings		
Marketing		
Others(Kindly specify).....		

11. What impact has outsourcing as a strategy has on your organization?

.....

.....

.....

.....

.....

12. Has outsourcing as a strategy helped your organization growth?

.....

.....

.....

.....

.....

Section C: Challenges of outsourcing

13. Which major outsourcing challenge does your organization have?

.....

.....

.....

14. How do you deal with the following challenges has your organization faced in outsourcing?

Cost:

.....

Property and knowledge in general

.....

Legal barriers

.....

Cultural barrier.....

.....
Language barrier

.....
Negotiating, managing, and overseeing a detailed contract.....
.....

.....
Wrong time in a market

.....
Are there problems with employing outsourcing as a business growth strategy?
.....
.....
.....

What do you think can be done to make outsourcing better?
.....
.....
.....

Has outsourcing as a strategy hindered or stagnated your organization growth?
.....
.....
.....

15. Any other comments.

.....
.....
.....
.....

Thank you for completing this questionnaire