

**CHALLENGES OF STRATEGIC OUTSOURCING BY MOBILE
TELECOMMUNICATION COMPANIES IN KENYA**

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DECLARATION

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

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DEDICATION

The research is dedicated first to my dear parents, who were a great source of inspiration to my education and without their foresight, sacrifice and support I would not have gone this far. Secondly, to my beloved wife Faith who stood by me all times and my two sons Tony and Thierry whose encouragement kept me going up to the end.

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ABBREVIATIONS

ARPU	Average Revenue per User
BCS	Bandwidth and Cloud Services.
EBITDA	Earnings before Income Tax Depreciation and Amortization
CAPEX	Capital Expenditure
MTR	Mobile Termination Rates
EXTELECOMS	East African External Telecommunications Company.
KENEXTEL	Kenya External Telecommunications Company
KP&TC	Kenya Post and Telecommunication Corporation
STD	Subscriber Trunk Dialing
CAK	Communication Authority of Kenya
CDMA	Code Division Multiple Access
WIMAX	Wireless Interoperability Multiple Access
SEACOM	Submarine Cable System
WIOCC	West Indian Ocean Cable Company
3G	Third Generation
4G	Fourth Generation
LTE	Long Term Evolution
IBM	International Business Machines
E& Y	Ernest & Young Consulting
MNC	Multinational Corporations
ICT	Information Communication Technology
US	United States of America

ABSTRACT

Various studies have been undertaken on factors that motivate companies to outsource but the challenges remain inherent of such strategic decisions. Increased expenditures and the growing number of players in the telecommunication industry have created many challenges to the telecommunication companies. In order to stand out from the competition and to have higher earned average revenue per user (ARPU), telecommunications operators are looking for all possible ways to cost-cut and pass on the benefits to end customer through better services at lower prices. The study noted that strategic outsourcing as much as the process had a number of whip hands as there were several shortcomings that should be taken into consideration. The shortcomings that were analyzed in this research were loss of control, operational risks, business disruption and lack of well-defined responsibilities. It was noted that strategic outsourcing led to loss of control over how certain services are delivered; this was noted to raise the company's liability exposure. From the findings the researcher recommends the firms to carefully consider the vendor to partner with as well as the dynamics inside your own organization, and how your outsourcing strategy impacts your own people. Human capital goals must be aligned with outsourcing goals. You'll want to optimize headcount while retaining key talent to execute the business. Careful planning and consideration helps to ensure your outsourcing strategy is successful. An area of further research is outsourcing to related partners. Further research should be considered on the challenges facing mobile telecommunications organizations that outsource their activities to related parties or parties with similar parent organizations.

CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

This study focuses on the Strategic Outsourcing by mobile telecommunications companies in Kenya and the challenges faced while undertaking business. Telecommunications organization are increasingly focusing on their core competencies and outsourcing most of non-key functions; allows businesses to achieve greater efficiency without having to invest in people and technology (Brown & Wilson, 2005). Various studies have been undertaken on factors that motivate companies to outsource but the challenges remain inherent of such strategic decisions. Increased expenditures and the growing number of players in the telecommunication industry have created many challenges to the telecommunication companies. The need for faster internet speeds, mobility and increased telecommuting (working outside ones workstation) by senior business executives has led to companies adopting faster communication models triggering increased costs of roaming.

Aggressive drive to increase revenues has led to companies facing all kinds of internal & external forces such as increased expenditure through advertising and marketing, increased employee salary and stiffer competition for subscriber market share. This has been witnessed with threats such as lower switching costs for the subscriber from one operator to another, costs due to increased regulation among other factors. In order to stand out from the competition and to have higher earned average revenue per user (ARPU), telecommunications operators are looking for all possible ways to cost-cut and pass on the benefits to end customer through better services at lower prices.

Studies have indicated that one of the biggest costs for mobile operators is the mobile network expense such as maintenance and transmission costs that typically make up 15% to 20% of operators' total operating expenses in developed markets (Jethro and Gustav, 2009). Sales and marketing costs on the other hand account for 28% to 32% (Delloite Consulting 2011). Jethro and Gustav (2009) further adds that savings in these costs could translate into a one-to-three percentage-point improvement in the earnings before interest, tax, depreciation and amortization, or EBITDA for operators. In the best tradition of the value chain, any pain felt by the operators will undoubtedly get passed down the line to the consumer. Government policies on tariffs and mobile termination rates (MTR) have seen dominant Kenyan players earn lower revenues on call termination (Kenya Information and Communications Regulation on Interconnection and Tariffs 2010).

Various strategies including infrastructure sharing are amongst the few examples practiced in Kenya aimed at reducing these expenses and maximizing revenues for existing CAPEX investments. The most common one is outsourcing. Gupta and Gupta (1992) define outsourcing, as the practice of hiring outside professional services to meet in-house needs of an organization. Brown and Wilson (2005) further state that powerful trends in the global business environment have made outsourcing a growing phenomenon. Some of these global trends include: the shift from domestic to global economy; the shift from manpower to techno- power; the shift from company-led to consumer-driven market forces and the shift from industrial economies to knowledge-based economies. The global nature of business encourages outsourcing because global firms are pursuing the lowest cost source on a global scale making firms with a global footprint more competitive than their locally counterpart as they can source labor from the cheapest sources in the world such as India, China and

Indonesia. In pursuit of efficiency businesses are increasingly relying on technology as opposed to manpower. Telecoms firms being heavily dependent on continuously changing technology outsource in order to mitigate the risk of technology obsolescence. This also enables lead firms to access new technologies and hence one of the main drivers of decision to outsource. For most businesses, consumers are becoming more demanding of superior services. Firms therefore will tend to outsource aspects of their business to experts who are able to customize products more efficiently than the firm can achieve. This controls headcount and allows for better flexibility at the same time enabling acquisition of new capabilities at reduced costs.

1.1.1 Strategic Outsourcing

Strategy sets the direction in which a firm wants to go. (Johnson Scholes & Whittington, 2008) argues that strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectation.

Andrews (1980) argues that strategy refers to pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its stakeholders. Mintzberg (1994) declares that strategy has several meanings, all of which are useful. He says that strategy is a plan, a pattern, a position, and a perspective and, can also be a ploy; a maneuver intended to outwit a competitor.

Companies therefore need to prioritize and make relevant decisions on which strategic direction to take so as to achieve competitiveness, cost effectiveness and customer focus. This calls for strategic management. This involves the related concepts of strategic planning and strategic thinking which entails strategy formulation and strategy implementation. Whereas planning is analytical in nature and refers to formalized procedures to produce the data and analyses for strategic thinking, formulation on the other hand involves carrying out analysis in the external environment in which the organization operates with a view of making strategic decisions about how the organization will compete. According to Mintzberg et al (1996) strategy implementation involves decisions regarding how organization's resources (people, processes and IT systems) will be aligned and mobilized towards the objectives. For telecommunications firms part of the strategic implementation process targeted to achieve such goals involves outsourcing.

The concept of outsourcing refers to the contracting out of a business process or scope to a third party. The term outsourcing became popular in the United States (US) near the turn of the 21st century. Outsourcing is also used to describe the practice of handing over control of public services to for-profit corporations (Jamieson, Dave, 2013).

Outsourcing includes both foreign and domestic contracting and sometimes includes offshoring or relocating a business function to another country usually with a view of achieving financial savings from lower international labor rates. Outsourcing by a firm has two variables. It may be either tactical or strategic (Brown and Wilson, 2005). It is considered tactical when it is implemented in order to solve specific problems being experienced by the firm.

Other situations under which a firm may engage in tactical outsourcing are where the firm wishes to generate immediate cost savings. The focus of tactical outsourcing is the contract and the relationship between the firm and the vendor of the services or goods. Strategic outsourcing on the other hand is concerned with building long-term value for the firm through long-term relationships with partners. In such cases the firm seeking to outsource works with best in class service providers with systems and processes that can easily integrate into its operations.

The outsourcing firm considers the suppliers offering services as business partners and the emphasis is on mutual benefit in the long run. Strategic outsourcing in itself is a strategic business response to the external environment and to competitive forces within the industry. According to Taylor and McAdam (2004) firms learn from the environment and adopt innovations to respond to environmental change. If the external environment is perceived to be highly dynamic and complex, then the level of outsourcing activities is likely to be high. This is because firms in such an environment will choose to transfer the risks inherent in that industry to the outsourcing supplier (Gilley, McGee, and Rasheed, 2004).

Other firms are driven to strategic outsourcing by the need for more profits and survival (Brown and Wilson, 2005). Some firms engage the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel. This is often done to allow a business to arrange the use of its assets to best advantage, and allow the company to move closer to the achievement of its goals. An outsourcing strategy of this type may be employed by businesses and other organizations of any size, and normally helps to reduce the cost of operations as well as allow available resources to be allocated to the other necessary functions that are still managed within the organization. Usually the main goal of

strategic outsourcing is to achieve long-term competitive advantage.

Many people tend to associate outsourcing with small companies that operate with relatively limited budgets. This is often true, since smaller business enterprises are likely to have limited resources. In such a case, for example, a strategic outsourcing effort may involve contracting with a provider to manage the process of generating invoices to customers, receiving those payments, and paying any outstanding debts using the proceeds from those payments. Such outsourcing allows the small company to divert resources that would normally go to supporting an accounting department into other important areas, such as product development, marketing, or sales.

Larger businesses can also make use of strategic outsourcing as a means of utilizing their resources to better advantage. For example, a business may choose not to maintain an in-house sales force, but contract out the sales effort to others who generate sales on behalf of the company. With this model, the business does not have to be concerned with the expense of salaries and benefit packages for salespeople. Instead, the business only has to provide the agreed-upon commissions for sales generated by the business partner and any monthly fee charged as part of the contractual agreement between the two entities.

Following the increase in strategic outsourcing as a result of the glaring global competition the scope of outsourcing has changed from the traditional concept to strategy, (Quinn & Hilmer 1994). According to Mazzawi (2002), Strategic outsourcing is concerned with creating value to align with the business processes that are changed to be in line with strategic goals. Consequently, management are employing the abilities of a team of combined local and foreign expertise in addition to the use of new technologies to improved

service delivery to customers with the belief that outsourcing can result in cost saving and provide the much needed competitive edge. Furthermore, organizations are focusing on creating values by demanding particular competencies of individuals and outsourcing every business function that will enable them gain the competitive advantage with the exception of specialized functions (Quinn & Hilmer, 1994). The main propelling element for this decision is basically centered on organizational restructuring and cost reduction. Further to note is that powerful trends in the global business environment have made outsourcing a growing phenomenon. Some of these global trends include the globalization of the economy, shift from manpower to technology driven power, the shift from company-led to consumer driven market forces and lastly shift from industrial to knowledge based economies.

Although the results of most early outsourcing drivers were unsatisfying, recent investigation shows that organizations are bettering their potentials with respect to managing outsourcing relationships, (Lacity et al., 1998). Despite the difficulties constantly being reported by organizations with regards to their outsourcing arrangements, Ross et al. (2003) agrees that outsourcing has developed as a crucial tool in business management with its own set of peculiar management practices and challenges. Organizations therefore need to be fully aware of their potential and core competencies in order to successfully tap their resources (Prahalad and Hamel, 1990). Porter M.E. (1985) argues that sustainable competitive advantage comes about by performing different activities from rivals or performing similar activities in different ways. Telecommunications thus outsource to achieve and sustain competitive advantage over rivals.

However, despite such immense benefits that come with outsourcing social challenges such as labor related issues have risen in recent past. Lack of control as well has been noticed by operators practicing outsourcing with increased risks of lack of business continuity. Loyalty amongst outsourced employees has equally been witnessed calling for further research on inherent challenges that telecommunications companies faces once they outsource their non-core activities.

1.1.2 Telecommunications Sector in Kenya

Kenya's earliest telecommunications connections to the outside world were the submarine cables linking Zanzibar, Mombasa, and Dares Salaam laid by the Eastern & South African Telegraph Company in 1888. Internally, the construction of a telegraph network began with a 200-mile coastal line linking the port city of Mombasa with Lamu. Extension into the interior of the country began in 1896 in conjunction with the building of the railway system, forming a dual "backbone" for Kenya's communications infrastructure. The extension of the telegraph line even overtook railway construction, reaching Nairobi in 1898 and Kampala and Entebbe in Uganda in 1900.

In 1908, the public telephone network began service in Nairobi, the capital, and in Mombasa. In Nairobi that year, eighteen telephone subscribers were connected. In 1968, Kenya became a member of the Intelsat global satellite communications consortium, with EXTELCOMS (and subsequently KENEXTEL and ultimately KP&TC) responsible for operating earth stations to access Intelsat's satellites. Kenya's first major earth station came into operation at Longonot northwest of Nairobi in 1970. There are now two such stations at Longonot, each accessing Intelsat satellites in the Atlantic Ocean and Indian Ocean, with a third earth station in Nairobi and a fourth in Kericho.

By 1980, there were 73,932 direct exchange lines (DELs) in use in the public telephone network; just over 84% were connected to automatic switching equipment and 75% had direct long-distance dialing (STD or subscriber trunk dialing) capability. There were 1,228 telex lines in use and 50 leased data transmission circuits in use. The network of 1980 represented a solid foundation for future expansion even though it had significant shortcomings: 33% of long-distance call attempts failed due to congestion, and at any given time 15% of exchange lines were not in working order. (KP&TC Annual Reports; Tyler and Jonscher, 1982)

In the 1980s, growth of Kenya's network occurred on a larger scale. KP&TC undertook three telecommunications development programs: the First Program ran from 1979 to 1983; the Second Program began in 1984 and was completed in 1988; and World Bank funding for the Third Program was negotiated in 1985-86, with disbursements beginning in 1987 and completion achieved in 1992.

The First Program called for the addition of 58,800 exchange lines of capacity. The Second stressed the expansion of service in Kenya's rural areas, and the Third Program largely continued the approach established by the first two but included two significant innovations: extensive replacement of small manual exchanges in rural areas with digital switching equipment and the introduction of optical fiber transmission. However Kenya's telecommunications and broadband market underwent a revolution following the arrival of four fiber-optic international submarine cables, ending its dependency on limited and expensive satellite bandwidth.

With the liberalization of the telecommunications sector in 1998, from the incumbent government owned monopoly KP &TC (Kenya Post & Telecommunication Corporation) was split into various entities to foster competition in the sector. With liberalization of international gateway and national backbone, the country's international bandwidth requirements increased more than fifty-fold and prices fell significantly. Currently the industry has witnessed bandwidth price reduction more than 90%, enabling cheaper tariffs for telephone calls and broadband Internet services. However, ISPs have reluctantly passed on the cost savings to end-customers, which have prompted the industry regulator, the then Communications Commission of Kenya (now Communication Authority of Kenya- CAK) to consider price caps. By the year 2010, the mobile telephony sector had 6 players offering mobile telephony services, namely Safaricom, Airtel Kenya, Essar Telecom (also known as Yu Mobile) Telkom Kenya (also known as Orange Mobile), Flashcom and Popote Wireless. Telkom Kenya, Flashcom and Popote wireless operated on CDMA frequency (800 MHZ- Telkom and 1900MHZ –Flashcom & Popote). Flashcom and Popote operated as local loop operators with operations in Nairobi and Mombasa.

Companies that started out as Internet service providers (ISPs) have transformed themselves into second-tier telecommunication companies by rolling out national and metropolitan fiber backbones and wireless broadband access networks offering converged voice, data and video/entertainment services. At least six major deployments of wireless interoperability multiple access (WIMAX) technology and four Fibers to the Home (FTTH) rollouts are underway. Advanced services such as IPTV/triple-play, e-commerce, e-learning and e-government are now rapidly evolving.

However, the infrastructure investments have been costly and the market has become more competitive, which has led to strategic realignments in the sector. Several infrastructure-sharing agreements have been forged-latest developments between EATON TOWERS and Orange (Telkom Kenya). A simplified and converged licensing regime introduced in 2008 has lowered the barriers to market entry and increased competition by allowing operators to offer any kind of service in a technology and - service neutral- regulatory framework. Notably the country's incumbent fixed-line operator ORANGE Kenya (Consortium of France Telecom and Government Kenya) embarked on revamping its infrastructure and services under the Orange brand with fresh capital from its new majority shareholder, France Telecom, making it possible to re-enter the mobile market. However, the company is still making losses and required a substantial cash injection in 2012 as part of major restructuring program, prompting France Telecom to announce in early 2014 that it is looking for a buyer of its stake.

In addition a price war has characterized Kenya's mobile communications sector in recent years, following the market entry of the third and fourth network. This has led to accelerated subscriber growth, but it has also presented challenges to the profitability of the operators, forcing them to streamline their operations and develop new revenue streams in an environment of falling average revenue per user (ARPU) in the voice market. In the industry, Safaricom has had the largest share of market revenues and subscriber share currently at 67.9%, 79% on voice and 96% on all text messages (Bloomberg Business Week, March 2014) and only Safaricom has remained profitable over the years and retained immense growth in its mobile pay platform MPESA, having announced billions of profit ever year.

The other five competitors had reported losses in previous years and continued to do so. Airtel' s subscriber market share stand at 17.6% while that of Essar and Telkom Kenya stood at 7.3% and 7.2% respectively. Increased competition and marketing of GSM technology in Kenya rendered Flashcom and Popote Wireless with no visibility. Indirect competition is also offered to mobile service providers by firms like Indigo Telecom, SEACOM, WIOCC, Wananchi telecom, MTN, Access Kenya, Jamii telecom, BCS Group, KPLC and Kenya Data Networks among others who provide dark fiber to connect homes and corporate, backhaul fiber but in addition also offer Voice Over the Internet Protocol (VOIP) calls and data.

With the telecoms sector in Kenya being highly regulated, to participate in the sector a firm needs to make significant investments with license fees being in millions of dollars. The regulator also sets wholesale prices (also known as interconnection rates) and regulates market promotions by requiring its licensees to obtain written approval prior to launch of products. Because of the biting economic conditions prevailing in Kenya in 2010 the subscribers of mobile telephony were showing price sensitivity and were allergic to price increases. As a result subscribers were demonstrating lack of loyalty to service providers by maintaining more than one SIM card and using the services of the cheapest provider depending on the available tariff structure.

This pushed competition amongst operators to higher levels. Third generation (3G) mobile broadband services, VAS solutions as well as mobile payment and banking services have helped deliver additional revenues. Following heavy subscriber losses, the two smallest players in the market, Orange and Yu (operated by India's Essar) announced plans to exit

the market. Lastly the Kenyan government indicated plans to license multi-faceted consortium to operate a unique open-access fourth generation (4G/LTE) technology network, despite resistance from the existing dominant player who currently running trials has further deepened the rivalry amongst players.

Forces in the macro environment, as well as competitive forces in the telecommunications industry, were constraining its ability to grow and become profitable and a need for players to rethink their business approach is mandatory. Various strategies have thus been witnessed among outsourcing of key functions to vendors. Whereas Bharti- owned Airtel Kenya has adopted total outsourcing model in several functions within the organization to manage its low cost strategy, Orange, Essar (YU) and Safaricom have equally outsourced network management, turnkey infrastructure rollout to third parties.

1.2 Research Problem

Competition has reduced the profit margins to the extent that most telecommunications companies are trying to find new ways of doing business. In the Kenyan sector various telecommunications companies have resorted to concentrating on their core business and outsourcing the none core functions to parties who have expertise and technical know how in them. Increased costs of doing business and the need to expand and grow the market share have driven companies to come up with ways of managing costs and maximizing revenue. This has led to adaptation of cost reduction initiatives including strategic outsourcing to improve the ability of the firm to survive and compete in the environment in the long term. Increased differentiation of customer wants has necessitated need for market segmentation forcing firms to come up with not only unique products to fit into the various segments but

also invest huge sums of their resources to market and win over these segments. With strategic outsourcing, firms can transfer the risk inherent in the macro environment such as dynamic costs and high technological obsolescence to the outsourced vendor.

Further, increased regulation of the industry such as tariffs structure, mobile call termination caps and open licensing, has opened up new avenues for significant competition resulting in price wars witnessed through extensive marketing campaigns and branding. Safaricom for example has gone to an extent of branding and renaming the Kasarani International Sports Centre - Safaricom Stadium- to achieve brand visibility. Safaricom's archrival – Airtel has also adopted various sports activities and supported young talent through its programs duped Airtel Rising Stars. All this is done with the sole intention of winning Kenyan attention and loyalty.

Such external and internal threats within the sector has necessitated companies to focus on strategic outsourcing with the hope of achieving a host of benefits such as the ability to focus on its core business, to become more customer-centric, access the superior resources of the outsourced vendor and also save costs by taking advantage of the scale of the vendor – IBM for case of Airtel Kenya. However, for a firm to fully benefit from strategic outsourcing, the firm must implement strategic outsourcing in the right manner so as to overcome the challenges that has crippled this practice. This involves not only the firm carrying out a formal evaluation to determine whether it is best for services to be rendered in-house or be provided by an external vendor, but to establish change processes that ensures all potential difficulties that are likely to result from outsourcing are addressed and mitigated.

A number of valuable studies on likely variables necessitating need for outsourcing have been undertaken. Ernest & Young (2012) global report on the future of network operations confirms that the way communications operators provision and manage their networks will continue to undergo profound change. Rising cost pressures and dramatic increases in data traffic is driving operators to make use of third party providers for network management, infrastructure rollout and system integration. Locally there have been a number of valuable studies on outsourcing, (Gakii, 2010; Oyugi, 2010; Malachy, 2010; Gulamhusein, 2011) all of which present evidence that strategic outsourcing has been put into practice in Kenya. These studies (Gakii, 2010) and (Oyugi, 2010) indicate that strategic outsourcing if properly implemented can contribute positively to the corporate performance of the firm. However, none of these studies indicate the inherent challenges faced by firms practicing strategic outsourcing model in the Kenyan mobile telecommunication sector.

This study aimed at investigating the challenges that mobile telecommunication companies face as a result of adopting strategic outsourcing as their key competitive advantage. How prepared are the mobile telecom operators to face the challenges caused by strategic outsourcing given the drastic changes in the Kenyan mobile telecom industry?

1.3 Research Objective

The objective of this study will be to establish the strategic challenges that mobile telecommunications companies in Kenya experience by undertaking strategic outsourcing of non-core activities.

1.4 Value of the Study

The learning gained from challenges faced by outsourcing will inform the government and regulatory authorities of the need to develop coherent policies that promote and safeguard

best business practices and come up with contracting guidelines and applicable laws that protect Kenya as an outsourcing destination as well as the need to regulate offshore outsourcing. Secondly the results of the study will give a key understanding of the expected labor relations and employee management processes that need to be considered when outsourcing. Job security concerns and transition management guidelines will help employees have a smooth transition and better motivated when moving from the lead firm to the contracted employer.

Lastly this study adds to the existing body of research on the subject of strategic outsourcing. The study provides the latest thinking and approaches on the subject of outsourcing and how an understanding of strategic change management comes in handy to address potential challenges.

CHAPTER TWO : LITERATURE REVIEW

2.1 Introduction

This chapter will cover theoretical foundations of strategic outsourcing, study of theories that support outsourcing as well as an insight on how strategic outsourcing decisions are undertaken. Such theories as Transaction Cost Theory and Resource Based Theory will form part of the discussion in this chapter to give an understanding of the very foundations of outsourcing.

2.2 Theoretical Foundations

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

Outsourcing dates back to the period of Industrial Revolution and has helped thousands of companies achieve profitability. In the United States of America and Western Europe, almost every company outsources some part of their business (Brown and Wilson, 2005). According to Brown and Wilson (2005) Companies in the United States and in Western Europe rarely build manufacturing plants in their country. Instead China, Eastern Europe, India, the Philippines, South Korea and Taiwan are their locations of choice because labor costs in these destinations are cheap compared to the west.

Brown and Wilson (2005) argue that strategic outsourcing is concerned with building long-term value for the firm through long-term relationships. In such instances the firm seeking to outsource works with best in class service providers whom it integrates into its operations and considers the vendors offering services as business partners with the sole emphasis being mutual benefit. Several factors influence a firm to arrive at a decision to outsource the provision of services within given functions. The Transaction Cost Theory and Resource Based Theory capture the major factors that influence a firm to take the decision to outsource.

2.2.1 Transaction Cost Theory

This theory states that organizations are economic actors using the most efficient mechanism for transactions (Williamson, 1981). This theory postulates that there are costs in using a market. These costs include operational costs such as research costs and inventory holding costs as well as the costs of writing and enforcing a contract. By making their own inputs the firm gains economies of scale and avoids transaction costs.

The increased size of the firm will however require increased internal co-ordination (Grover et al 1996). If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale (Grover et al 1996). It would however take advantage of the economies of scale and operators scope while at the same time reducing internal management costs. However the firm that outsources will increase its external management costs. External coordination costs will increase or decrease depending on the outsourcing model.

For the case where mobile operator products and services are highly differentiated (very unique), operators may not be able to develop sufficient economies of scale through outsourcing and costs would thus be very high. In such a situation it may be more prudent to develop the competencies in house. In contrast more standardized products and services could reflect lower external co-ordination costs leading to increased economies of scale and would therefore be a more viable option for outsourcing. The transaction cost approach therefore offers an analytical framework that can be used by a firm in comparing outsourcing services and in-house services. Using Adam Smith's division of labor theory, DeLooff (1995) proposed that only when the outsourcing supplier performs certain activities on a large scale could the efficiency of outsourcing be reached. If outsourcing cannot be performed on a large scale, the financial benefits of outsourcing, such as reduction of operational costs and improvement of measurability of costs are hardly achieved. The production scale of the outsourcing partner as well as the scale of the outsourcing market may be important variables in determining the adoption of outsourcing (Lacity and Hirschheim, 1993).

The core idea behind strategic outsourcing is to benefit in some manner from allowing outside entities to take over the operation and management of a given function. Those benefits can take many different forms. Often, the idea is to increase the bottom line of a company by reducing various operating expenses. At other times, the benefit has to do with having immediate access to professionals who specialize in handling the outsourced function, without the need to train personnel to take over those functions.

Further the benefit may be a matter of convenience, allowing the business owner to not have to deal with necessary functions that he or she does not wish to deal with, or feels unable to manage with any degree of efficiency. As long as the client considers the benefits that are generated by the arrangement sufficient, then the process of strategic outsourcing can be considered a success.

2.2.2 Resource Based Theory

Traditional strategy models such as five forces model (Porter M.E., 2008) focuses on the company's external competitive environment. Most of them do not consider the firms internal capabilities. In contrast the resource –based perspective highlights the need for a fit between the external market context in which a firm operates and its internal capabilities. The resource-based view is founded on the perspective that a firm's internal environment, in terms of its capabilities and resources, is more critical to the determination of strategic action than the external environment. Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment, the resources based view suggest that a firms unique resources and capabilities should provide the basis of the strategy (M. A. et al, 2001).

It is worth noting that for a firm to fully exploit its existing stock of resources and capabilities and achieve competitive advantage, the external acquisition of complementary resources and capabilities might be necessary. According to Grant (1991 p 120), this external acquisition is known as “filling gaps” and should be done only after a thorough evaluation of existing resources and deficiencies. Outsourcing such deficient resources is the key to successful competitive advantage.

2.3 Strategic Outsourcing Decision

Starting up any outsourcing decision-making process demands much effort; hence Douglas and Scott (2005) declared that some fundamental considerations should be adhered to. They propose that the organization should set their strategic direction, highlight their core competence and determine its strategic objectives, produce a list of suppliers/vendors to consider and constitute a team for the outsourcing and governance process. It is worth emphasizing that the organization should consider the choice of partner – they should focus on partnering with the right vendors, institute an efficient governance system that foster's good relationship and monitors service level agreements (SLA) and also handle employees' dealings with caution. Above all, the senior management must provide leadership by setting the overall direction.

According to Justin et al (2006) Outsourcing decisions should really be a strategy-driven process. First and foremost is to have a clear definition of the strategic objectives and target variables that can be used to evaluate the success of the strategic decision; this is the most vital for the success of an outsourcing move. Second is to define a suitable outsourcing model with a clear definition of objectives and variables that will help figure out the business gains and set goals. Validation of the outsourcing model should include stakeholders, who are involved in the outsourcing projects within the organization. This will strengthen the benefits and risks of the outsourcing decision and may consider benchmarking data for similar businesses. The next step would be to define requirements and partner selection criteria.

This involves a clear definition of the requirements and specifications of parameters for the vendor selection criteria. Finally is to select the right vendor based on the selection criteria then followed by the initiation of negotiations?

2.4 Empirical Review of Challenges in Strategic Outsourcing

In addition to great benefits that outsourcing of non-core activities yield it does generate some problems. Following are the key expected challenges.

2.4.1 Loss of Control

First of all, outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure. Alexander and Young (1996) highlight the risk of becoming dependent on a supplier, Barthelemy (2001) draws our attention to the hidden costs of outsourcing and authors such as Doig et al. (2001) and Quinn and Hilmer (1994) identify the possibility of a loss of vital knowhow in particular with respect to core competencies as a major risk factor in outsourcing.

2.4.2 Partner Competence

Selection of the most suited outsourced vendor / service provider and their longer-term ability to offer the capabilities that are needed in a particular business environments is a great challenge with the rapid technology change. Companies that outsource should therefore continue to monitor the contractor's activities and establish constant communication so as to minimize risks and enhance business continuity. Risk of technology obsolescence is material consideration which cannot be simply ignored.

According to Frost (2000) the use of outsourcing as a strategic management tool, increases operational risk in a number of ways including a lack of strategic clarity before outsourcing takes place, and/or a failure to take into consideration strategic change in the future, which might change the nature of the outsourcing relationship. Some outsourcing transactions are very highly valued, with success or failure making a greater difference to an institution's overall financial position and reputation in the marketplace.

2.4.3 Business Continuity

As outsourcing involves the handing over of control to a third party to run a function or process, there is always the risk of initial business disruption. This risk occurs at the termination of the contract when there is either contract renewal or the control of the function or process is handed back to the customer. Further transitional lapses are likely to be experienced and if not properly managed might lead to loss of valuable company property and useful information as institutions become newly dependent on third parties to manage what could be a significant part of their operations (Alexander and Young, 1996). If the strategic direction of an institution changes there is the potential that service contracts become outdated and inflexible.

2.4.4 Lack of Well-defined Responsibilities

Although outsourcing generally suggests a more efficient way of doing business, the client may find that the outsourcing vendor is not actually more efficient in running a function. The service responsibilities of the outsourcer and retention of responsibilities by the client may be ill defined, leading to disputes later on. Management on the client's side may resist because of fear of loss of control to third party, or what they are good at. In some cases outsourcer may fail to understand adequately the client's business, which increases risk for

the client. Outsourcers need to take a strategic perspective of the customer's vision, current and future core competencies, where it adds value, positioning in the market and so on. In the case of outsourcing human resources management, companies are transferring the administrative management of one of their most significant assets to a third-party service provider. Staff may also oppose the outsourcing because of reluctance to change and fear of losing out.

2.4.5 Employment and labor conditions Challenges

Outsourcing in the telecommunications sector has seen the conditions of employment emerge as a residual of dynamics between the inter-firm relationships within the sector. With the rising need to centralize functions and responsibilities within the organization through outsourcing to large, established firms, most firms practice the norm of employee-sharing through a loose arrangement wherein those employed in one firm get deployed into one where work is outsourced to, allowing both firms to avoid longer-term commitments or payouts.

This takes advantage of ambiguities involved with employer–workplace congruence, usually practiced by service industries. Subramanyam (2011) observes that when a mobile network operator outsources its network or customer service operations to other corporations, it is the practice to transfer employees as well. For example, Airtel transferred 1,000 of its engineers to the contracted network managers. In such cases usually those transferred are not given enough time to read through their new employment contracts before signing and end up getting frustrated and losing loyalty to their former employers for feeling cheated leading to poor service delivery.

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the research design that was used, the method of data collection as well as the method of data analysis proposed.

3.2 Research Design

The research design employed was descriptive cross sectional survey. The researcher gathered data from the mobile telecommunication operators in Kenya. The survey was conducted to investigate the major challenges faced by companies who have adopted strategic outsourcing as their competitive strategy.

3.3 Population of the Study

The study targeted the mobile telecommunication operators in Kenya mainly Airtel, Safaricom, Orange and YU. A population sample of four directors per mobile operator was interviewed in this study.

3.4 Data Collection

The research involved the collection of primary data by the researcher through undertaking cross-sectional surveys of four directors of each of Kenya's mobile operators. The intended interviewees were directors of the following key functions; Network operations, Business Strategy, Supply Chain Management and Human Resources. The target interviewees are senior executives of the organization who are responsible for the development and implementation of the company's strategy and are knowledgeable of the factors that influenced strategic outsourcing as well as effects of the decision to outsource certain functions within the Company. Secondary data from regulator also played a key component of data collection.

The researcher focused on the attached questionnaire in the appendix to act as a guide. The questionnaire involved structured open-ended questions under various sections as per below so as to gather as much data as possible. Section I of the questionnaire focused on the interviewee background; Section II focused on the outsourcing model employed; Section III sought to establish factors influencing outsourcing decision; Section IV seeks to establish the benefits associated with outsourcing, Section V focuses on establishing the challenges of strategic outsourcing on the mobile telecommunication business.

3.5 Data Analysis

Considering the qualitative nature of the data collected through questionnaires, descriptive statistics technique was used to analyze collected data and summarize responses for further analysis. Descriptive statistics is the discipline of quantitatively describing the main features of a collection of information or the quantitative description itself. Descriptive statistics aimed at summarizing a sample, rather than use the data to learn about the population that the sample of data is thought to represent. Such data descriptive techniques such as measures of central tendency, mean, median, mode, and measures of variability or dispersion (variance and standard deviation) was used to analyze the data collected.

CHAPTER FOUR : DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is a presentation of results and findings obtained from field responses and data, broken into two parts. The first section deals with the background information, while the other section presents findings of the analysis, based on the objectives of the study as explored by the questionnaires where both descriptive and inferential statistics have been employed.

4.2 Response Rate

The targeted population was the four mobile operators in Kenya. Each mobile operator was given four questionnaires making a total of sixteen questionnaires, 13 questionnaires out of 16 given out were returned. This represented 81.25% of the population and hence the analysis was done using 13 questionnaires received from the respondents. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This also corroborates Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good as presented in table 4.1

Table 4.1 Response Rate

Response rate	Frequency	Percentage
Returned Questionnaires	13	81.25%
Unreturned Questionnaires	3	18.75%
Total	16	100%

Source: Research findings 2014

4.3 Data validity

To establish validity, the research instrument was analyzed to evaluate the relevance of each item in the instrument in relation to the objectives. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). Validity was determined by use of content validity

index (CVI). CVI was obtained by adding up the items rated 3 and 4 by the experts and dividing this sum by the total number of items in the questionnaire. A CVI of 0.854 was obtained. Oso and Onen (2009), state that a validity coefficient of at least 0.70 is acceptable as a valid research hence the adoption of the research instrument as valid for this study.

The questionnaires used had Likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 4 = excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

4.4 Descriptive statistics

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made. Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Sixty nine point two three percent (69.23%) of the respondents were male whereas Thirty point seven, seven percent (30.77%) were female.

Demographic factor 2 shows the level of education of the respondents, (15.38%) of the respondents had done a diploma at the college level, (61.54%) had done a universities bachelor's degree and this level carried the highest level of education, another (15.38%) had done a post graduate degree at the university level. Respondents who stated that they had done a different level of education carried 7.69% of the respondents. This result illustrates that most of the respondents were well educated with mainly a bachelor's degree or a post graduate degree at the university level.

Respondents who had worked in the companies for less than five years covered 23.08% which was a frequency of 3. Sixty one point five, four percent (61.54%) of the respondents had worked in the firm for 6 to 10 years this covered a frequency of about eight. 15.38% of the respondents had worked in the telecommunications companies for a period of 11 to 15 years. This carried a frequency of about 2 respondents. The study showed that no respondents had worked for more than 15 years. This therefore illustrates that most respondents had the relevant skill, knowledge and experience on the mobile telecommunication industry.

Demographic factor 3 examines the number of employees working in the organization. Information on the number of employees in the organization is statistically shown in Table 4.2. It was noted from the study that 3 of the thirteen respondents that returned the questionnaire worked for mobile telecommunications companies that had over 500 employees in their firms. This covered 23.08% of the employees. 61.54% of the respondents stated that they had 201 to 500 employees working in the mobile telecommunications companies which indeed represented majority of the labor force strength in the mobile

telecoms industry. 2 respondents worked in organization that had between 151 and 200 employees. This represented fifteen point three, eight percent (15.38%). No respondents were noted to state that they had a lesser employee base. This therefore illustrates that the mobile telecommunications companies in Kenya have a large employee base of at least 201 employees.

Table 4.2: Demographic information

Demographic information	Frequency	Percentage
Gender		
Male	9	69.23%
Female	4	30.77%
Total	13	100%
Level of Education		
O level	0	0%
College(Diploma)	2	15.38%
University(Bachelor's degree)	8	61.54%
University(post graduate/Diploma)	2	15.38%
Other	1	7.69%
Total	13	100%
Years worked in the organization		
Less than 5 years	3	23.08%
6 to 10 years	8	61.53%
11 to 15 years	2	15.38%
16 to 20 years	0	0%
21 to 25 years	0	0%
Over 25 years	0	0%
Total	13	100%
Number of employees in the organization		
Below 20	0	0%
21 to 50	0	0%
51 to 100	0	0%
101 to 150	0	0%
151 to 200	2	15.38%
201 to 500	8	61.54%
Over 500	3	23.08%
Total	13	100%

Source: Research findings 2014

Further the respondents were asked to rate how various variables influence the outsourcing decisions in the mobile telecommunications companies on a five point Likert scale. The range was from the most influential which was represented by five to not influential which was represented by 1. The variables 5 = Most influential; 4 = moderately influential; 3 = Influential; 2 = Least Influential; 1 = Not influential. A standard deviation of >1.5 implies a significantly small variance from mean mark of the variable among respondents.

Based on findings of Table 4.3 the study revealed the following reasons as fundamental in mobile telecommunications companies adopting strategic outsourcing decision. It was noted that the mobile telecommunications companies had a high extent of strategic outsourcing of non-core activities. This was indicated by the high mean values of 4.9783. The standard deviation calculated from the study indicated of 1.41146, indicated a small variance from the mean mark. The study also showed that variable technological influence on decisions to outsource had a significance influencer due to the high mean values calculated of 4.9130. This indicated that most respondents agree that technology was most influential on the decisions to outsource. The standard deviation indicated a small variance from the mean. The study also noticed that economic, social, political and regulatory also had significant influence on the decisions to strategic outsourcing of non-core activities. This was seen by the high mean values calculated of 4.0870, 3.5435, 4.01957 and 4.1522 respectively. The standard deviation calculated from this study were all seen to be less than 1.5 which indicates a small variance from the mean mark. The desire to focus on core business activities was noted to be most influential to decisions on strategic outsourcing of non-core activities. This was evidenced by the high mean values calculated of 4.9391. The standard deviation calculated was 1.36567 indicated a small deviation from the mean mark. From the

study it was also noted that the variable the desire for cost savings had a significance of influence on strategic outsourcing of non-core activities in mobile telecommunication industry. This was evidenced by the mean value calculated of 4.2391 from the SPSS data analysis. The standard deviation calculated of 1.15802 from this analysis indicated a small variance from the mean mark.

The study also shows that the desire for greater cost control was also influential to strategic outsourcing of non-core activities in the mobile telecommunication industry. This was evidenced by the high mean values calculated at 3.3261 which when rounded came to about three (represented influential) the standard deviation calculated in this variable of 1.16866 indicated a small variance from the mean mark. The desire to provide cheap products to the customers was also noted to have a significant influence on strategic outsourcing of non-core activities in the mobile telecommunications companies. This was seen by the high mean value calculated of 3.8261(Moderately influential) indicated a moderate influence on strategic outsourcing of non-core activities in the telecommunication industry. The analysis also noted that the need to mitigate technological risks had significant influence on strategic outsourcing on the mobile telecommunication companies in Kenya .this was evidenced by the high mean values calculated of 4.0652.the standard deviation calculated in the analysis of 1.33020 indicated s small deviation from the mean value. The study also showed that the need for greater efficiency also encouraged strategic outsourcing of non-core activities in the mobile telecommunication industry. This was evidenced by the mean value calculated of 4.0217 which represents moderate influence; this therefore means that according to most respondents there was a moderate influence in the variable the need for greater efficiency to strategic outsourcing of non-core activities in the mobile telecommunications industries. The

small standard deviation calculated in the study indicated a small variance from the mean mark.

The study also indicated that the need to offer superior/differentiated products than competitor to offer had a significant influence on strategic outsourcing of non-core activities in the mobile telecommunication companies. This was evidenced by the high mean of 4.0870 calculated in the analysis. The standard deviation calculated in the study of 1.21076 showed that there was a very small variation in the responses of the respondents. From the SPSS data analysis it was noted that access to resources and technology that the company did not have prior to the decision to outsource had a significance influence on strategic outsourcing of non-core activities in the mobile telecommunications industry. This was evidenced by the high mean values calculated of 4.5217(Most influential) in the SPSS data analysis. The standard deviation calculated in the analysis of 1.43022 indicates a little deviation from the mean mark.

Table 4.3 : Extent of influence of various variables to outsourcing of non-core activities in the mobile telecommunications companies, Kenya

	Mean	Std. deviation	Skewness	Kurtosis
Extent the company outsource its non-core functions	4.9783	1.41146	0.132	-1.126
Technological influence on decisions to outsource	4.9130	.83253	0.368	-0.98
Economical influence on decisions to outsource	4.0870	1.35344	0.134	-1.321
Social influence on decisions to outsource	3.5435	1.06173	0.149	-1.321
Political influence on decisions to outsource	4.1957	1.14728	-1.348	2.778
Regulatory influence on decisions to outsource	4.1522	.42196	0.037	-1.452
The desire to focus on core business	4.9391	1.36567	0.473	-1.078
The desire for cost savings	4.2391	1.15802	0.121	-1.239
The desire for greater cost control	3.3261	1.16866	-1.348	2.778
The desire to offer cheaper products to customers	3.8261	1.22572	0.134	-1.116
The need to mitigate technological risks	4.0652	1.33020	0.468	-0.981
The need for greater efficiency	4.0217	1.57289	0.131	-1.301
The need to offer superior/differentiated products than competitor	4.0870	1.21076	0.142	-1.021
Access to resources and technology that the company did not have prior to the decision to outsource	4.5217	1.43022	-1.354	2.228

Source: Research finding 2014

4.5 Relationship between Lack of control and strategic outsourcing of non-core activities.

To understand the relationship between lack of control and strategic outsourcing of non-core activities in the mobile telecommunications companies in Kenya, a Chi-Square test was conducted to assess the relationship between ability to exercise control within the outsourced activities as shown in Table 4.4

Table 4.4: Relationship between Lack of control and strategic outsourcing of non-core activities

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.03522	5	0.0001
Likelihood Ratio	17.46032	5	0.0000
Linear-by-Linear Association	0.03521	1	0.0418
N of Valid Cases	162		

Source: Research findings 2014

3 cells (25.0%) have expected count less than 5. The minimum expected count is 3.45. A p-value of 0.0001 shows a strong, significant, positive relationship between lack of control and strategic outsourcing of non-core activities the mobile telecommunications companies. Therefore basing on these findings the study deduces that there exists a strong positive relationship lack of control and strategic outsourcing of non-core activities in the mobile telecommunications industry in Kenya

4.6 Relations between operational risk and strategic outsourcing of non-core activities

To understand the relationship between operational risk and strategic outsourcing of non-core activities in the mobile telecommunications companies in Kenya, a Chi-Square test was

conducted to assess the relationship between operational risks within the outsourced activities due to partner competence as shown in Table 4.5

Table 4.5: Chi Square Test: Of operational risks and the strategic outsourcing of the non-core activities in the mobile telecommunication companies, Kenya.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	31.61445	9	0.0002
Likelihood Ratio	36.34022	9	0.0000
Linear-by-Linear Association	9.717855	1	0.0018
N of Valid Cases	582		

Source: Research findings 2014

A p-value of 0.0002 shows a strong, significant, positive relationship between operational risks and strategic outsourcing of non-core activities. Therefore basing our conclusion on this study, it is accurate to agree that there exists a strong positive relationship between the operational risks (which are mainly partners competence) and the strategic outsourcing of non-core activities in the mobile, telecommunications companies in the country

4.7 Relations between lack of well-defined responsibilities and strategic outsourcing of non-core activities

A chi-square test was conducted to establish the relationship between lack of well defined responsibilities and strategic outsourcing of non core activities in the mobile telecommunications companies in Kenya. Table 4.6 shows the research findings.

Table 4.6: Chi Square Test: Of lack of well-defined responsibilities and strategic outsourcing of non-core activities

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.17292	2	0.0002
Likelihood Ratio	20.07018	2	0.0000
Linear-by-Linear Association	15.34876	1	0.0001
N of Valid Cases	385		

Source: Research finding

In the analysis of the chi square test it's noticed that chi square has a p-value of 0.0002. A p-value of 0.0002 shows a strong, significant, positive relationship between lack of well-defined responsibilities and strategic outsourcing of non-core activities in the mobile telecommunications industry. We can therefore deduce that there exists a relationship between lack of responsibilities in these telecommunication firms and strategic outsourcing of the non-core activities. Therefore strategic outsourcing leads to lack of well-defined responsibilities in the mobile telecommunications industry in Kenya

4.8 Relations between Employment and labor conditions challenges and strategic outsourcing of the non-core activities

To understand the relationship between impact of employment and labor conditions challenges and strategic outsourcing of the non-core activities in the mobile telecommunications companies in Kenya, a Chi-Square test was conducted to assess the relationship between impact of employment and labor conditions challenges on strategic outsourcing of non-core activities as shown in Table 4.7

Table 4.7; Chi square test; of employment and labor conditions challenges and strategic outsourcing of the non-core activities

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.90461	9	0.00025
Likelihood Ratio	32.29772	9	0.0002
Linear-by-Linear Association	2.40228	1	0.000124
N of Valid Cases	609		

4 cells (25.0%) have expected count less than 5. The minimum expected count is 3.69.

Source: Research findings 2014

From the study, it was noted that the Pearson chi-square value was 0.00025. a p-value of 0.00025 indicates a strong, significant, positive relationship between employment and labor conditions challenges and strategic outsourcing of the non-core activities. This concludes that strategic outsourcing of the non-core activities has a positive and significance influence on strategic outsourcing of non-core activities in the mobile telecommunications in Kenya.

4.9 Relations between business disruption and strategic outsourcing of non-core activities in the mobile telecommunication companies in Kenya

To understand the relationship between impact of business disruption and strategic outsourcing of non-core activities in the mobile telecommunications companies in Kenya, a Chi-Square test was conducted to assess the relationship between impact of business disruption and strategic outsourcing of non-core activities as shown in Table 4.8

Table 4.8: Chi square test; of business disruption and strategic outsourcing of non-core activities in the mobile telecommunication companies in Kenya

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.03522	5	0.0001
Likelihood Ratio	17.46032	5	0.0000
Linear-by-Linear Association	0.03521	1	0.0418
N of Valid Cases	162		

3 cells (25.0%) have expected count less than 5. The minimum expected count is 3.45.

Source: Research findings 2014

From the analysis of the study Chi square test, the p value was noted to be 0.0001. A p value of 0.0001 indicates significant, positive and strong relationship between business disruption and strategic non-core activities in the mobile telecommunications industry. This can enable us to deduce that strategic outsourcing in the mobile telecommunications industry leads to the risk of initial business disruption of these firms.

CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is a synthesis of the entire study, and contains summary of research findings, exposition of the findings, commensurate with the objectives, conclusions and recommendations based thereon.

5.2 Summary of Findings

This section summarizes research findings based on key objectives i.e. strategic challenges that mobile telecommunications companies in Kenya experience by undertaking strategic outsourcing of non-core activities. The main challenges that were considered in use of strategic outsourcing of the non-core business activities were Loss of control, operational risks, and business disruption, lack of well-defined responsibilities and employment and labor condition challenges.

From the analysis, it was seen that there was a strong, positive relationship between lack of control and strategic outsourcing of non-core activities in the mobile telecommunications companies in Kenya. This was indicated by the p-value of 0.0001 that shows a strong, significant, positive relationship between lack of control and strategic outsourcing of non-core activities the mobile telecommunications companies. Therefore the study deduced that strategic outsourcing in the telecommunication industry usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure.

Alexander and Young (1996) highlight the risk of becoming dependent on a supplier, Barthelemy (2001) draws our attention to the hidden costs of outsourcing and authors such as Doig et al. (2001) and Quinn and Hilmer (1994) identify the possibility of a loss of vital knowhow in particular with respect to core competencies as a major risk factor in outsourcing. From the analysis, it was also noted that there existed also a strong, significant, positive relationship between operational risks and strategic outsourcing of non-core activities. This was indicated by the strong p-value of 0.0002 in the chi square test. From this it was accurate to deduce that strategic outsourcing of non-core functions in the mobile telecommunications companies led to increased operational risks.

Companies that outsource should therefore continue to monitor the contractor's activities and establish constant communication so as to minimize risks and enhance business continuity. Risk of technology obsolescence is material consideration which cannot be simply ignored. According to Frost (2000) the use of outsourcing as a strategic management tool, increases operational risk in a number of ways including a lack of strategic clarity before outsourcing takes place, and/or a failure to take into consideration strategic change in the future, which might change the nature of the outsourcing relationship.

From the study, it was noted that strategic outsourcing in the mobile telecommunication companies led to lack of well-defined responsibilities. This was evidenced by a p-value of 0.0002. A p-value of 0.0002 shows a strong, significant, positive relationship between dependent and the independent variable. The service responsibilities of the outsourcer and retention of responsibilities by the client may be ill defined, leading to disputes later on. Management on the client's side may resist because of fear of loss of control to third party,

or what they are good at. In some cases outsourcer may fail to understand adequately the client's business, which increases risk for the client. From the study it was also noted that strategic outsourcing led to business disruption of the mobile telecommunications companies. This was evidenced by a p value 0.0001 calculated in the chi square test. A p value of 0.0001 indicates significant, positive and strong relationship between business disruption and strategic non-core activities in the mobile telecommunications industry. As outsourcing involves the handing over of control to a third party to run a function or process, there is always the risk of initial business disruption. Further transitional lapses are likely to be experienced and if not properly managed might lead to loss of valuable company property and useful information as institutions become newly dependent on third parties to manage what could be a significant part of their operations (Alexander and Young, 1996)

5.3 Conclusion

Mobile telecommunications companies in the country should therefore consider the challenges of outsourcing before undertaking any strategic outsourcing in any department in the telecommunications firms. The study noted that strategic outsourcing as much as the process had a number of whip hands as there were several short comings that should be taken into consideration. The shortcomings that were analyzed in this research were loss of control, operational risks, business disruption and lack of well-defined responsibilities. It was noted that strategic outsourcing led loss of control over how certain services are delivered; this was noted to raise the company's liability exposure.

Strategic outsourcing in the mobile telecommunications industry was noted to increase on the operational risks. Companies that outsource should therefore continue to monitor the

contractor's activities and establish constant communication so as to minimize risks and enhance business continuity. Strategic outsourcing was also noted to lead to business disruption of the mobile telecommunications firms. From this it was noted that if not properly managed might lead to loss of valuable company property and useful information as institutions become newly dependent on third parties to manage what could be a significant part of their operations.

Strategic outsourcing in the mobile telecommunications companies also led to lack of well-defined responsibilities. From this it was clear that Outsourcers need to take a strategic perspective of the customer's vision, current and future core competencies, where it adds value, positioning in the market and so on. In the case of outsourcing human resources management, companies are transferring the administrative management of one of their most significant assets to a third-party service provider. Staff may also oppose the outsourcing because of reluctance to change and fear of losing out.

5.4 Limitations of the study

The study relied on questionnaires for the analysis of the data. Some of the respondents were not willing to provide full information on outsourcing strategies employed by the organization considering the highly competitive environment of the mobile telecommunications sector in Kenya. Time was also noted to be a hindrance to acquiring all the relevant data relating to the study.

5.5 Recommendations

From the findings the researcher recommends the firms to carefully considering the vendor you will partner with as well as the dynamics inside your own organization, and how your outsourcing strategy impacts your own people. Human capital goals must be aligned with

outsourcing goals. You'll want to optimize headcount while retaining key talent to execute the business. Careful planning and consideration helps to ensure your outsourcing strategy is successful. From the findings the researcher recommends that the mobile telecommunications firms should consider the suppliers who provide services with similar line of business as theirs so as to avoid conflicts and harmonize enterprise resource platforms so as to have one uniform platform for operation. From the findings the research recommends that in order to reduce on business disruption caused by strategic outsourcing of non-core activities in the telecommunications companies in the country the firms should build internal competencies through enhancement of knowledge transfer especially to local insourced talent throughout the outsourcing period. This will ensure business continuity in the event of contract termination as well as enable insourced resources better monitor existing service level agreements through governance.

5.6 Suggestions for further studies

The analysis of the empirical study has indicated a number of relevant issues that the research project did not investigate. This research focused mainly on challenges facing strategic outsourcing of non-core activities in the mobile telecommunication companies. Further research should be conducted on the challenges facing mobile telecommunications organizations that outsource their activities to related parties or parties with similar parent organizations so as to establish whether such organizations can achieve effectiveness and efficiency in their operations.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

The Respondent

Nairobi

Re: Survey on Challenges of Strategic Outsourcing by Mobile Telecommunications

Companies in Kenya.

My name is Ngetich Gilbert Kipkorir, currently undertaking a post graduate course in Master of Business Administration (MBA), specializing in Strategic Management, at the University of Nairobi. The course requires me to undertake a research project on relevant topic to my specialization.

I am currently undertaking the above titled research among Mobile Telecommunication Companies in Kenya. The information you provide will be treated in confidence and is purely for academic purposes. A copy of the final paper will be submitted to your company for acknowledgement and future reference should you require.

Thank you in advance for the cooperation.

Sincerely,

Ngetich Gilbert Kipkorir,

Researcher

Cc: Dr. Bitange Ndemo

Supervisor

APPENDIX II: QUESTIONNAIRE

Section I: Basic data

Name (optional)	_____	
Department	1.Human Resources Management	[]
	2. Administration	[]
	3. Business Strategy	[]
	4. Customer Service	[]
	5.SupplyChainManagement	[]
	6. Legal	[]
	7. Finance	[]
	8. Technical	[]
	9. Information Technology	[]
	10.Other (Please specify)	[]
Name of organization	_____	
No. of employees in the organization	1. Below 20	[]
	2. 21 to 50	[]
	3. 51 to 100	[]
	4. 101 to 150	[]
	5. 151 to 200	[]
	6. 201 to 500	[]
	7. Over 500	[]
Level in organization	1. General Staff	[]
	2. Supervisor	[]
	3. Manager	[]
	4. Senior Manager	[]
	5. Director	[]
Gender	1. Male	[]
	2. Female	[]
Number of years worked in the organization	(1) Less than 5	[]
	(2) 6 to 10	[]
	(3) 11 to 15	[]
	(4) 16 to 20	[]
	(5) 21 to 25	[]
	(6) Over 25	[]
Level of education	1. O Level	[]
	2. College (Diploma)	[]
	3. University (Bachelors degree)	[]
	4. University (Postgraduate Degree/Diploma)	[]
	5. Other (please specify)	[]

Section II: Outsourcing

1. To what extent does your company outsource its non-core functions?

Very great extent []

Great extent []

Moderate extent []

Small extent []

No extent []

2. Which of the following types of outsourcing do you mostly adopt?

Total outsourcing []

Multiple supplier outsourcing []

Joint venture outsourcing []

Strategic Outsourcing []

Section III: Factors influencing outsourcing decision.

3. To what extent do the following factors influence your decision to outsource?

Kindly rate the extent using a scale of 1-5 where: -

5 = Most influential; 4 = moderately influential; 3 = Influential; 2 = Least Influential;

1 = Not influential.

Rankings	5	4	3	2	1
Technological					
Economic					
Social,					
Political,					
Regulatory,					

4 In a scale of 1- 10, how would you rank the factors set out below with regard to their influence on the decision to outsource in your specific function?

Item	Rank
The desire to focus on core business	
The desire for cost savings	
The desire for greater cost control	
The desire to offer cheaper products to customers	
The need to mitigate technological risks	
The need for greater efficiency	
The need to offer superior/differentiated products than competitor	
Access to resources and technology that the company did not have prior to the decision to outsource	

Section IV: Benefits associated with outsourcing at your organization

5 Kindly indicate your level of agreement with the following statements posed regarding possible benefits associated with outsourcing in your firm, using the scale:

1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 = Agree; 5= Strongly Agree

	1	2	3	4	5
Cost savings					
Reduced capital investment					
Improved responsiveness to changes in the business environment					
Increased focus on core competencies					
Increased competition among suppliers ensuring higher quality goods and services.					
Reduced risk of changing technology					
Increase efficiency and competitiveness					
Enable new projects to start quickly					
Improved customer experience					
Access to capabilities and resources that it did not have prior to outsourcing					

6 To what extent do these above aspects of outsourcing enhance performance in your company?

Very great extent [] Great extent [] Moderate extent []

Small extent No extent

Section V: Challenges faced by your organization in outsourcing

7 Kindly indicate your level of agreement with the following statements posed regarding challenges faced by your organization in outsourcing, using the scale: 1= Strongly Disagree; 2= Disagree; 3= Neither Agree /Disagree; 4 = Agree; 5= Strongly Agree

	1	2	3	4	5
Increased transit times due to spatial separation					
Larger inventories due to greater uncertainty					
Safety and social issues of employment					
Information security issues					
Inadequate infrastructure within the vendor's home country					
Product or service quality issues					
The possibility of the loss of competencies within the focal company					
Currency devaluation due to offshore outsourcing					
Job loss in the outsourcing country					
Intellectual property rights issues					
Loss of in-house expertise					

8 To what extent do the above challenges inhibit performance in your company?

Very great extent Great extent Moderate extent

Small extent No extent