DETERMINANTS OF CUSTOMER SERVICE OUTSOURCING DECISION AMONG ORGANIZATIONS IN KENYA: A CASE OF ORANGE TELKOM KENYA LTD.

Esther Wanjiku Mburu
Master in Business Administration, Jomo Kenyatta University of Agriculture and Technology, Kenya

Dr. Gladys Rotich (PhD)
Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

The core idea behind decision to outsource was to benefit in some manner from allowing outside entities to take over the operation and management of a given function. Those benefits took many different forms. Often, the idea was 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. The purpose of this study was to establish the determinants of customer service outsourcing decision at Orange Telkom Kenya Ltd. The study was guided by the following specific objectives; to determine the influence of cost as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd., to determine the influence of customer satisfaction as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd., establishing the influence of vendor capacity as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd., to establish the influence of competitive strategies as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd. The study employed a descriptive survey design. The target population of the study was 107 management employees of Orange Telkom Kenya Ltd. A sample size of 100 employees was drawn using a stratified random sampling. Primary data was utilized in this study which was collected using semi-structured questionnaire which comprised of both open and closed ended questions. Data analysis was both qualitatively and quantitatively analysed using the statistical package for social scientists (SPSS V20) for both descriptive and inferential statistics. Descriptive analysis included frequencies and percentages while inferential analysis involved the use of correlation analysis and regression analysis. The study established that cost has great influence on customer outsourcing decision in Telkom Kenya ltd. The study found that customer satisfaction influences customer outsourcing decision and that the business strategies influence customer service outsourcing in Telkom Kenya Ltd. The study also found that vendor capacity influences customer service outsourcing in Telkom Kenya Ltd. From the findings, the study concludes that cost, customer satisfaction has a positive influence on the customer outsourcing service in Telkom Kenya ltd. The study also concluded that vendor capacity has a positive influence on the the customer outsourcing service in Telkom Kenya ltd. The study recommends that to add weight to this study, another study should be done to investigate the determinants of customer service outsourcing decision by other organizations such as network service provider companies like Airtel.

Key Words: *customer service, outsourcing decision, organizations, Kenya, Orange Telkom Kenya Ltd.*

INTRODUCTION

Globalization of markets, rapid technological change, the shortening of product life cycles and increased competition describe the current turbulent environment in which organizations must learn to operate in. This has made each business entity to seek ways of propelling the company to success among them outsourcing. Companies have been forced to reassess their strategic direction and operating models. As a result of this reassessment, companies must now decide on which among their activities along the value chain are to be kept in-house and which ones should be outsourced to a third party (Jaruzelski, Katz & Ribeiro, 2011).

According to Hays, Hunton and Reck (2010), outsourcing for instance is defined as the process of transferring an existing business function, including the relevant physical and or human assets, to an external provider in order to strategically use outside resources to perform activities previously handled in-house. Typically, the function being outsourced is considered non-core to the business. An insurance company, for example, might outsource its janitorial and landscaping operations to firms that specialize in those types of work since they are not related to insurance or strategic to the business. The outside firms that are providing the outsourcing services are third-party providers.

A business that engages its external accountant to provide advice which directly assists performance (strategic advice on growing revenue), or advice that has an indirect impact on performance, such as advice directed at improving management control (advice on regulatory compliance, risk, systems, performance reviews), finance structure (introducing sources of finance) or financial planning will lead to a competitive edge over the other. Though the practice of business outsourcing started in the between 1950 and 1960, it was not until 1989 that outsourcing was formally identified as a business strategy (Mullin, 2009).

According to Mullin (2009), between 1990 and 1994, as the focus of corporations shifted from business expansion to cost saving, outsourcing became more of a buzz word and a central business strategy especially in the developed nations. World over, the practice of outsourcing has been catalysed by efforts to benchmark internal performance against market competitors and to ascertain the relative costs and benefits of alternative production or supply arrangements. Organizations need to react quicker to customer requirements and outsourcing is seen as a vehicle to accomplish this (Kinnie, 2010).

It has not been uncommon for organizations with their own in-house facilities to contract with external market suppliers of the same production in order to assess the performance of their 'insiders'. This is said to be associated with a process of organizational learning (Lumpkin, Moss, Gras, Kato & Amezcua, 2013). Since 2002, the number of outsourcing ventures has grown significantly (Colling, 2009). Outsourcing has spread beyond the traditional IT services of applications outsourcing and infrastructure outsourcing, to business process outsourcing (BPO), knowledge process outsourcing, and consulting services for migration (Armstrong, 2012).

Market research conducted by various consulting firms show that the off shoring market in 2000 was approximately U.S.$119 billion (Bryman & Bell, 2011); Marriott, Young, Huntley,

& Armstrong, 2012). In just less than a decade, the industry has expanded by more than 2.5 times to U.S.$300 billion by 2008. It is further estimated that the U.S.$300 billion represents only about 10% of the potential market for global off shoring /outsourcing services (Nasscom-McKinsey, 2012). Drawing attention to customer service outsourcing which is the focus of this study, business leaders looking to trim costs have found this a viable option (Fox, 2010).

This is in regard to the projections that it curbs payroll costs while gaining access to best practices from outsourced providers. Holweg (2012) further asserts that outsourcing initiatives are key to company efforts to focus on core competencies, alter engrained practices and attain significant cost reductions in non-core processes. When it comes to customer service, a big decision lies in whether to outsource or not. Indeed, this is echoed in the words or Grady Reid –Business Unit Manager at Cinergy as quoted by Aont (2011); ten years ago, few utilities outsourced any of their customer service function.

Over time, though, many call center vendors have established themselves as reliable, efficient and low-cost suppliers in the customer service area. Along the same notion, Cox et al (2011) contends that companies that outsource their customer service risk losing control, slow their access to their customers and the market. This highlights the loss of valuable benefits inherent in having the ability to control your own data, documents and communications. According to Cox et al. (2011), companies may outsource their core value-chain operations or their support activities.

Global Outlook on Customer Service Outsourcing

Outsourcing has been a global trend in business for several years. It has been growing domestically and internationally during the recent years. The highly competitive environments in which today's businesses operate acts as a strong stimulus for businesses to outsource their services. Economic globalization facilitates the process of searching for opportunities on the global market to outsource some of a firm's activities instead of performing them on their own. The role of outsourcing in the process of economic globalization is outlined by the leading international consulting companies (Jabbour, 2013).

According to Chongvilaivan and Hur (2011), Senior Vice President at SunGard Availability Services, businesses in all industry segments found that limited internal resources would make outsourcing an attractive, cost-effective and prudent option that would allow them to focus on their core competencies. Sundaray (2011) sees outsourcing as a form of privatization that refers to a decision by an organization to contract with an external organization to provide a function or service. The contractor then takes over the employees of the firm in the outsourced section or replaces the firm's employees with its own staff.

Chongvilaivan and Hur (2011) observed that the growing use of outsourcing reflects a general acceptance by organizations that it will reduce costs while continuing to provide essential company service. To remain competitive and to improve service delivery in the face of declining resources has forced institutions to turn to several management approaches, including outsourcing. Outsourcing has existed in the USA for over 30 years particularly the business process outsourcing (BPO). The Bank of America, Best Buy, Motorola, PepsiCo, Procter & Gamble, and Sun Microsystems are all outsourcing HR functions.

HR functions are not just being outsourced; they are being sent offshore Weinstein (2010). The US companies have off-shored their manufacturing and their R&D facilities in their semi-conductors, computing, chemicals and pharmaceuticals to the UK, Germany, France, Ireland and other developed countries. For example in UK, Dysons, whose core business is making of vacuum cleaners has outsourced some of its operations to Asian and North American countries where the labor charges are fairly low when compared to those of United Kingdom (Heshmati, 2013).

Regional Outlook on Customer Service Outsourcing

In view of developing countries, outsourcing has taken place more recently in Botswana. According to Heshmati (2013), Malaysia, an emerging South East Asian nation, was the third most desirable location for offshore outsourcing in the world, after India and china. In Malaysia, the demand for outsourcing was not only from global multi-national companies but also from local companies. The demand for outsourcing was driven by the fact that companies could access a more reliable infrastructure that could ensure smooth core business operations at lower costs and with greater flexibility.

Outsourcing also encouraged the pooling of resources for a more efficient use of resources to reap the benefits that could be derived from economies of scale. In Africa, South Africa and Mauritius already have fast-growing BPO sectors. Countries like Kenya, Botswana, Ghana and Egypt have also ventured into outsourcing. These countries seem to be strong outsourcing destinations over the next few years. Mauritius has been doing outsourcing since the early 1990s. Accenture, Infosys, Ceridian, TNT and Orange are examples of companies with a strong presence there. The majority of the companies serve the European countries.

Customer Service Outsourcing on a Local Perspective

In 2007, Kenya launched its Vision 2030 which among other things focused majorly on outsourcing customer services as a key driver in the economy (Ochieng, 2009). The Vision projected that Over 30,000 Kenyans would get employed in the customer service outsourcing annually by 2030. According to Ochieng (2009), the interest in outsourcing customer service grew with this government strategy and major companies in Kenya including Telkom Kenya Ltd, Kenya-Airways and Banks expressed interest to consider outsourcing their customer service to the outsource firms.

The major limitation to the outsourcing services then was the high connectivity costs as fiber optic cables had not been laid within the country and the country had not yet been connected to the international fiber optic backbone. However, the high interest levels in the industry got the government considering provision of subsidies to local outsourcing firms’ connectivity costs so as not to lose out on the momentum gained for the outsourcing services (Ochieng, 2009). In Kenya, Kencall which is East Africa's largest international contact centre provides call centre services for various companies worldwide (Heshmati, 2013).

The government went ahead and fast tracked the fiber optic cable connectivity and by 2009, fiber optic cables had networked major cities in Kenya and the first connectivity to the international fibre optic cable backbone was made. Two more international fiber optic connections were completed by 2011 (Gathara, 2009). Outsourcing in Kenya can be described as being in its infancy. Business Process Outsourcing, for instance in the banking sector have taken root, manufacturing firms are still experimenting with the idea of outsourcing (Perunović, Christoffersen & Mefford, 2012). Out of the 4 mobile operators in Kenya, two of them –Airtel and Orange Telkom have outsourced their customer service department to third party outsource firms. Airtel Kenya has outsourced to Spanco Raps Ltd, Orange Telkom has outsourced their customer service to two companies, Kencall Ltd and Horizon Contact Center (Gathara, 2009).

Orange Telkom Kenya

Orange Telkom Kenya Limited is a provider of integrated telecommunications solutions in Kenya, with the widest range of voice and data services as well as network facilities for residential and business customers. It was previously part of Kenya Posts and Telecommunications Corporation (KPTC) which was the sole provider of both postal and telecommunication services. In 1999, KPTC was split into three: Communications Commission of Kenya (CCK); Postal Corporation of Kenya (POSTA) and Telkom Kenya (Havas, 2011). Orange Telkom Kenya was established as a telecommunications operator under the Companies Act in April 1999.

The company operates and maintains the infrastructure over which Kenya's various internet service providers (ISP) operate. As of 2004, most internet service was provided via dial-up service. Dial-up Internet access is a form of Internet access that uses the facilities of the public switched telephone network (PSTN) to establish a dialed connection to an Internet service provider via telephone lines. Jambonet, an important Kenyan ISP, is a subsidiary of Telkom Kenya (Okuttah, 2016). In 2007 France Telecom (now Orange South Africa [S.A]) acquired 51% of Telkom Kenya's shares. According to an Inheritance Tax Report, France Télécom and the Kenyan government would bring 11 and 19 percent of their respective shareholdings on the market 5within three years of the deal's completion. Telkom Kenya's partnership with France Telecom saw the launch of the Orange brand in Kenya in 2008. In November 2012, the shareholding structure changed due to a decision by the Kenyan government to convert its shareholder into equity in order to ease Telkom Kenya's debt burden. It was subsequently confirmed that the Kenya government would retain 40% shareholding down from 49% with the remaining shares held by France Telecom.

In January 2013, France Télécom increased its stake in Telkom Kenya to 70% as a consequence of the government not having provided its full portion of 2012 funding (Mutegi, 2012). Orange is one of the world's leading telecommunication operators with sales of 43.5 billion Euros in 2012 and has 166,000 employees worldwide as at 30 September 2013, including 102,000 employees in France. Present in 32 countries, the Orange Group has a total customer base of more than 232 million customers as at 30 September 2013, including 175 million mobile customers and 15 million fixed broadband customers worldwide. At the end of June 2015, Orange Telkom Kenya operated a high quality mobile data network with a combined subscriber base of 4 million customers according to figures published by the industry regulator Communications Commission of Kenya (CA). In November 2015, Orange group, which was the largest shareholder of Orange Telkom Kenya made it's exit after selling its entire stake to Helios Investment Partners. Orange departure from the Kenyan market marks its exodus out of East Africa having recently exited the Ugandan telecommunications industry (Orange, 2015).

With the tremendous growth in the customer subscriber base Orange Telkom Kenya has seen the need to differentiate itself by having exceptional and efficient customer service standards. The company has put in place customer-centric systems to help stream line service delivery. Achieving the goal of exceptional and efficient customer service however was a challenge; Orange Telkom Kenya has an in-house call center and outsourced part of the customer service. Orange Telkom Kenya recognized the need to partner with service providers that had extensive industry knowledge with the ideal infrastructure that could enable its customer service representatives attend personally to each customer. Horizon Contact Centers and KenCall are partners to Orange Telkom Kenya with world leading performance and insight solutions that allow the contact information to be directed to the correct people, track the contacts and gather the relevant data within the minimum time if not on a real-time basis.

The supplemented efforts to Orange Telkom Kenya's exceptional customer service by Horizon contact centers and KenCall Ltd has led to Orange Telkom Kenya being ranked the best customer service provider in the Kenyan Market following a recent in-house customer satisfaction survey. Horizon and KenCall are currently able to forecast resources that enable it manage operations and efficiency for Orange Telkom Kenya through the their workforce management solution. This has helped improve the contact center service levels and is continuously increasing the contact handling rate from an approximated 80 contacts per agent hour to over 115 contacts per agent per hour. This is due to the use of real-time control of all the customer service representatives, constant and transparent reporting on agent on-call and after-call activities as well as schedule adherence. The Quality Management tool ensures Horizon and KenCall are able to skillfully manage the diverse customer touch points, linking this to their satisfaction index and quick resolution of issues raised increasing the client's customer retention (Ochieng, 2015).

STATEMENT OF PROBLEM

Most companies in Kenya carry out customer service outsourcing however 20% and 25% of all outsourcing relations do not succeed in either two year time and half the relations might fail in the five year because of inadequate processes that result to low procurement performances Dunn and Bradstreet Barometer of Global Outsourcing (2010). Additionally, a statement by Price Water House Coopers, Uk in 2000 reported that some outsourcing agreements fall before the agreement finishes, because of increasing costs and lack of trust between the service providers (the outsourcing firm) and customers (the outsourced firm), meaning that cash is not a basic cause of outsourcing. Depending with this, outsourcing program of Kenyan Telcos regularly fail on managements prospects (Ernest and Young, 2012). A study done by Synovate on how outsourcing performance efforts amongst the Kenyan Telecomm industry, 67 percent of the outsourcing efforts were found to be unsuccessful and 33% was found to be successful. The report insisted that bad performance is because of lack of outsourcing processes will go on to be experienced in the Kenyan Telecom Industry.

Competition has forced companies to change tact in the way of operating some of its business functions and the outsourcing approach to be employed so as to counter the strategies by rivals. Airtel Kenya and Orange Telkom Kenya have recently announced a plan to fire more than 500 employees an exercise which is focused on aligning the companies' structure with operating model and right-sizing (Standard digital news, 2016). Salary disputes within the BPO sector has led to a high level of turnover and Orange has had to keep retraining agents at KenCall and Horizon Contact Centre. Orange Telkom Kenya is forced to continuously train new team members, followed by frequent refresher training to keep their product knowledge updated; the majority of the outsourced call center staff are only trained on customer service, which is proving to be a big challenge to business because of the complex nature of broadband and data customers complaints (Mumo, 2013). Further, although Orange Telkom Kenya has had great experience with outsourced call center service providers having benefited from cost management because payment to the service provider is based on the number of calls made to the customer care line, the company has made potential losses of about Ksh.2 billion by 2014 (Anyanzwa, 2016).

There have been a number of valuable studies on outsourcing in Kenya, (Gakii, 2010; Oyugi, 2010; Malachy, 2010; Gulamhusein, 2011) all of which present evidence that outsourcing has taken root in Kenya. These studies (Gakii, 2010) and (Oyugi, 2010) also indicated that strategic outsourcing if properly implemented can contribute positively to the corporate performance of the firm. Okongo (2012) studying outsourced practices in banking industry and hospitals respectively found intense competition and cost reduction as reasons to outsource. Wanjugu (2016) in identifying the benefits and challenges of outsourcing found that there are benefits that organizations received from outsourcing of their human resources although he does not point out the factors that influence such choices. However, none of these studies concentrated on factors influencing the customer service outsourcing in Orange Telkom Kenya Ltd or any other telecommunication company. This study therefore seeks to establish the determinants of customer service outsourcing decision at Orange Telkom Kenya Ltd.

OBJECTIVE OF THE STUDY

The general objective of this study was to establish the determinants of customer service outsourcing decision at Orange Telkom Kenya Ltd.

SPECIFIC OBJECTIVES

1. To determine the influence of cost as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd.
2. To determine the influence of customer satisfaction as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd.
3. To establish the influence of vendor capacity as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd.
4. To establish the influence of business strategies as a determinant of customer service outsourcing decision in Orange Telkom Kenya Ltd.

THEORETICAL REVIEW

Various theories have been used to explain and critic the outsourcing model including that of customer service outsourcing. These include the transaction theory and various other management and communication theories. For this research, we will look into the Network Theory, Transaction Cost Theory, Resource Based Theory and Principle agent Theory as these are the most relevant for explaining the variables used in this study.

The Network Theory

The network theory of the firm primarily elaborates on the formation of external (i.e., outside the firm) relationships, organizational structures, and alliances required to support integration processes, however this becomes challenging in regards to understanding and managing both internal and external activities. Therefore, the network theory explain "how" to aid the formation of external relationship structure necessary to improve system performance while the systems theory answers the "why" to view a relationship(s) as a system. This is crucial for Telkom Ltd. given that the firm operates in a market that is sensitive to customer relations.

Adverse or mistreatments of customers have been found to not only affect the involved firm but the entire industry. Therefore is a collective effort need to ensure that the network between the customers and the companies is sound and positive. Strategic outsourcing is redefining the organization and organizational performance in freeing the management and staff to refocus on the core business functions thus enabling companies to strengthen their resources in order to reinforce their competitive advantage (Thomas, 2011). This theory therefore points at the customer satisfaction as an important factor influencing customer service outsourcing.

Transaction Cost Theory

Transaction cost theory is concerned with finding the actual costs of outsourcing the production of products or services inclusive of contract costs, transaction costs, search costs and coordination costs. Vaxevanou and Konstantopoulos (2014) assert that transactional cost theory has been the most used outsourcing theory in the past years. It is considered that this theory makes the best decision making tool in helping organizations to decide which of their functions can be outsourced hence prior preparations in implementing any changes in the organization that arise with outsourcing services. Van Hoek (2000) states that through analysis of the transaction cost with the decision to "buy or make" predicts that a manager is likely to adopt any form of organization that will tend to lower the transactional costs.

This managerial decision is usually influenced by the various factors of investment and specialized assets (Williamson, 1996). When the investment in specialized assets is high, it implies that the uncertainties on the transaction will be high. This will reduce the likely hood of it being done within the organization. Many organizations have adopted building internal competencies with the hope that they can give feedback to any market queries faster than their vendors (Changnian, Jie & Faxin, 2015). According to Fine (Dagdeviren & Robertson, 2013), an organization adopting this theory becomes overly dependent on the suppliers and hence losing the tactical knowledge. In this case, the supplier gains strength in knowledge and this creates an investment on his side which in turn creates opportunities.

Transaction cost theory is therefore a significant tool in managerial decision making particularly on cost reduction. Various researches have been done on TC and their findings and conclusions reported. Spiller (2010) analyses Williamsons TC approach and relates it to the transaction cost economies theory of regulation, Teece (2010) examines its influence on management theory and practice, De Figueiredo Junior (2010) concentrates on an interdisciplinary application which talks about governance and the impacts of transaction cost economics on public and private organizations and Tadelis (2010) studies the transactional cost theory of a firm and the decisions involved. Therefore, this theory lays down foundation for measuring the influence of costs on outsourcing in Telkom Ltd.

Resource Based Theory

This theory was developed by Barney (1991) and is based on the factors that enable a firm to gain competitive advantage. The theory argues that firms earn sustained competitive advantage because they have access to strategic resources. These resources have four characteristics. They are rare (competitors can't obtain them), valuable (generate high returns), cannot be imitated, and have no close substitute. When these conditions are met, competitive advantage has been created (Priem & Burtler, 2011).

According to the theory, firms will tend to retain in-house those activities that take advantage of their strategic resources as outsourcing them would deprive the organization's competitive advantage (Aubert & Weber, 2011). They will tend to outsource resources that are non-strategic. Bonacich and Jake (2013) concurred and stated that management must own those operations that define a company's core business processes; other functional areas that are not core should be considered potential candidates for customer service outsourcing.

Brav, Wei and Hyunseob (2015) are some of the proponents of the theory and observe that some companies appear to earn sustained abnormal returns arising from access to key resources. Gottschalk & Saether (2012) noted that the essence of the theory lies in its emphasis on internal resources rather than on external opportunities and threats dictated by industrial conditions. They further argued that accumulation of strategic resources are dependent on factors like initial endowment and managerial decisions and these will determine what is retained in-house and what is outsourced. Customer service outsourcing is a strategic decision used by firms to fill the gap in the firm's resources and capabilities (Brown, Timothy & Julia, 2014).

Aubert and Weber (2011) found that the Resource Based Theory helped classify up to 72.5% of customer service outsourcing decision. However, researchers like Sanchez (2013) have questioned the measure of "strategic value of a resource" used in theory and the lack of an operational definition of the same. Hamersma, Carolyn and Peter (2014) have also argued that an organisation has to get the right mix of resources and actions to be competitive. They cited Wal-Mart supermarket chain, which continues to earn above average profits yet their product, technology, layout, and strategy is freely available to its competitors.

Handwerker and Elizabeth (2015) also noted that firms develop firm-specific resources and then review this to respond to shifts in the business environment. This study seeks to find whether and how telecommunication industry employ customer outsourcing as a strategic resource to remain competitive. Therefore this theory is relevant in understanding customer outsourcing for the organization to enable a firm to gain competitive advantage through adoption of various business strategies.

Principal Agent Theory

Principal Ageny theory is an ideal theory that explains the "vendor capacity", one of the independent variables in this research. This theory states that when the organization (principal) hires the third party (agent), it creates an agency relationship which justifies strategic alliances between the organizations (Fama, 1980; Jensen & Meckling, 1976). Agency relationships theorists usually examine problems arising from this relationship such as lose of control and potential conflicts between the principal and agent. Specifically, these potential conflicts may arise because of the organization's worry about loss of control.

The loss of control by the organization is known as one of the potential disadvantages of the outsourcing (Bahli & Rivard, 2003). Previous studies about outsourcing in also showed concern over possible loss of managerial control due to outsourcing (Bouchet, 2010; Burden & Li, 2005; Lee, 2010; Lee & Walsh, 2011).As the outsourcing market took root in Kenya, there were several issues of conflict of interest reported between clients and the outsourcing firms. This research will review whether such disagreements and conflicts of interests are experienced in Orange Telkom Kenya Ltd.

RESEARCH GAPS

There have been a number of valuable studies on outsourcing in Kenya (Oyugi, 2010; Malachy, 2010; Kinyua, 2011) all of which present evidence that outsourcing has taken root in Kenya. Nyarandi (2011) and Serem (2012) studying outsourced practices in banking industry and hospitals respectively, found intense competition and cost reduction as reasons to outsource. The methodological approaches used gave an extensive perspective of the subject of study but it left out the in-depth analysis necessary for understanding an important concept such as outsourcing.

Murua, Mahnke, McIvor and Lamming (2010) in identifying the benefits and challenges of outsourcing found that there are benefits that organizations received from outsourcing of their human resources although he does not point out the factors that influence such choices. However, none of these studies concentrated on factors influencing the customer service outsourcing in Orange Telkom Kenya Ltd.

RESEARCH METHODOLOGY

Research Design

A descriptive research design was employed. A major reason for this choice of design was because there was a clear picture of the phenomena (outsourcing) on which the researcher wished to collect data prior to the collection of data.

Target Population

The target population of the study comprised of management employees working in various departments in Orange Telkom Kenya Ltd. The departments are Finance, Human resource Management, Operation department, Marketing Department, Corporate Communication Department, Information Technology Department and Customer Care Department The target population of the study was 107 management staff from different departments.

Sampling Size

The sample size of the study therefore was 100 respondents and was distributed as per the numerical strength to avoid biasness. This study utilized the stratified random sampling technique. This was because the populations under study could easily be divided into relevant and significant strata based on management staff.

Data Collection Instruments

This study used the primary and secondary data. This was appropriate since limited information could be found in literature specifically addressing factors influencing customer servicing outsourcing in a telecommunications company. A questionnaire developed by the researcher and guided by the research questions was used to collect primary data. The use of a questionnaire is ideal as it allowed for collection of a large amount of data within a short time.

Data Collection Procedure

The study used primary data. On the primary data, questionnaires were used to collect data. The researcher administered the questionnaire individually to all respondents. The questionnaire was administered using a drop and pick later method to the sampled respondents.

Pilot Testing

To determine the reliability and validity a pilot study on primary tools was conducted. For purposes of this study the pilot test was conducted on a sample of 11 respondents from Airtel Kenya thus constituting 10% of the target population.

Reliability Test

Cronbach's alpha was used to test the reliability of the measures in the questionnaire). In order to test the reliability of the instruments, internal consistency techniques was applied using Cronbach's Alpha.

Data Analysis

Data analysis was analysed using the statistical package for social sciences (SPSS V20) for both descriptive and inferential statistics. Descriptive analysis involved percentages, mean and frequencies while inferential statistics involved regression analysis. Analysed data was presented in form of figures, and tables. The multiple regression equation for this study is stated as follows:

$$Y= \beta_0+ \beta_1X_1+ \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e,$$

Where:

Y = Customer service outsourcing; $\beta_{1\ldots4}$ = Coefficient of the independent variables; X_1 = Cost; X_2= Customer Satisfaction; X_3 =Vendor Capacity; X_4 = Business strategies; e – Error margin for other variables that may not have been captured.

RESEARCH RESULTS

Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved 11 respondents. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct. Frankfort-Nachmias and Nachmias (2012) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective which formed a scale. This illustrates that all the five scales were reliable as their reliability values exceeded the prescribed threshold of 0.7. This, therefore, depicts that the research instrument was reliable and therefore required no amendments.

Table 1: Reliability Analysis

	Cronbach's Alpha
Cost	.829
Customer satisfaction	.733
Vendor capacity	.751
Business strategies	.748

Regression Analysis

Regression analysis shows how dependent variable is influenced by independent variables.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.809	0.655	0.631	0.162

Table 3 is a model fit which establish how fit the model equation fits the data. The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.655 implying that 65.5% of the variations in customer outsourcing services of Telkom Kenya Ltd is explained by cost, customer satisfaction, vendor capacity and business strategies leaving 34.5 % percent unexplained. Therefore, further studies should be done to establish the other determinants (34.5%) of customer outsourcing decision in Telkom Kenya Ltd.

Table 4: ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	3.041	4	0.760	27.490	0.000
1	Residual	1.604	58	0.028		
	Total	4.645	62			

The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how cost, customer satisfaction, vendor capacity and business strategies influenced customer outsourcing decision in Telkom Kenya Ltd. The F calculated at 5 percent level of significance was 27.490 since F calculated is greater than the F critical (value = 2.4495), this shows that the overall model was significant.

Table 5: Coefficients of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.872	0.143		6.098	0.000
	Cost.	0.852	0.296	0.678	2.878	0.006
1	Customer satisfaction.	0.763	0.273	0.634	2.795	0.007
	Vendor capacity.	0.673	0.248	0.786	2.714	0.009
	Business strategies.	0.711	0.259	0.498	2.745	0.008

The established model for the study was:

$$Y = 0.872 + 0.852\,X_1 + 0.763\,X_2 + 0.673\,X_3 + 0.711\,X_4$$

Where;

Y = Customer service outsourcing decision

X_1 =Cost

X_2= Customer Satisfaction

X_3 =Vendor Capacity

X_4 = Business strategies

The regression equation above has established that taking all factors into account (cost, customer satisfaction, vendor capacity and business strategies) constant at zero, customer outsourcing decision in Telkom Kenya Ltd was 0.872. The findings presented also show that taking all other independent variables at zero, a unit increase in cost would lead to a 0.852 increase in the customer outsourcing decision in Telkom Kenya Ltd and a unit increase in the scores of customer satisfaction would lead to a 0.763 increase in the customer outsourcing decision at Telkom Kenya Ltd. Further, the findings shows that a unit increases in the vendor capacity would lead to a 0.673 increase in the customer outsourcing decision at Telkom Kenya Ltd in Kenya. The study also found that a unit increase in number of business strategies would lead to a 0.711 increase in customer outsourcing decision at Telkom Kenya Ltd in Kenya. Overall, cost had the greatest influence on the customer outsourcing decision at Telkom Kenya Ltd in Kenya, followed by customer satisfaction, then business strategies while vendor capacity had the least influence to the customer outsourcing decision at Telkom Kenya Ltd in Kenya. All the variables were significant ($p<0.05$).

DISCUSSION

Costs

The study established that cost as determinant had a great influence on customer outsourcing decision in Orange Telkom Kenya ltd. The costs that influences customer outsourcing decision in Telkom Kenya ltd were in form of hidden contractual costs, operating costs and labour costs. This is in line with Bernas (2009) who argues that the need for outsourcing services within the Telecom sector in Nigeria and other parts of Africa has been growing steadily over the years and also with the coming of the global recession, there is the need for telecom companies to ensure financial stability.

Excessive costs may cause transactions to be transferred to other institutions. Decrease in operation cost and cost in general was found to influence customer outsourcing. It was also found that the need for outsourcing decision within the Telecom sector in Nigeria and other parts of Africa has been growing steadily over the years and also with the coming of the global recession, there is the need for telecom companies to ensure financial stability. It also correlates to Datta and Roy (2013) who observed that excessive costs may cause transactions to be transferred to other institutions.

Customer Satisfaction

Regarding customer satisfaction, the study found that customer satisfaction as determinant had a great influence on customer outsourcing decision in Orange Telkom Kenya ltd. The influence was evidenced by reduction of dropped calls at Orange Telkom Kenya Ltd. In addition the influence was evidenced through use of modern technology in offering decision which is faster and efficient. This is in line with Pujals (2011) who argued that some banking institutions may choose to outsource certain activities for various motives like cost reduction, access to new technology, focus on core activities, improvement of quality of services and greater flexibility for customer satisfaction

Further the study claims that customer satisfaction survey results influences customer service outsourcing. These surveys are done to establish the customers' experience and therefore a strategy is developed to cater for customer needs and therefore customer outsourcing service comes in as a solution. Additionally the study found that Telkom Kenya Ltd subscribers are satisfied by the decision offered by the outsourced call centres. This concurs with by Ahmed, Nawaz, Usman, Shaukat, Ahmad and Iqbal (2010) who argues that overall service quality had a significant relationship with customer satisfaction.

Business Strategies

Concerning the business strategies, the study found that the business strategies as determinant had a great influence on customer outsourcing decision in Orange Telkom Kenya ltd. This is because it was revealed that access to superior technology allows a firm to enjoy the latest technology without the lead time that is customarily required for in-house development. This concurs with Foster, James and ventus (2015) who claims that without robust distribution even the best product or service fails.

Additionally accelerated businesses development was found to have a great influence on customer service outsourcing. Further risks sharing were found to have a great influence on customer outsourcing. Risk sharing allows companies to share risks as the service providers make the investment in technology on behalf of the service providers. This concurs with Lakhani, Sarosh and Ariel (2013) who observed that customer service outsourcing leads to access to superior technology and a firm can enjoy the latest technology without the lead time that is customarily required for in-house development.

In addition opportunity to grow in market presence was also found to have a great influence on customer outsourcing decision. This is through offering companies the opportunity to grow in market presence without the corresponding expansion in organizational size or bureaucracy. Access to strategic business advice was found to have a great influence on customer outsourcing. This is done through promising organizations superior technical know-how and access to strategic business advice, which leads to efficient processes and better performance. Further the study found that managers should be careful to choose the right combination of strategies for great result and help companies in cost reduction management so as to focus more attention in other areas of the business that are key. This corresponds to Mui (2010) who argues that customer service outsourcing enables companies to share risks as the service providers makes the investment in technology on behalf of many service providers.

Vendor Capacity

In relation to vendor capacity, the study found that vendor capacity as determinant had a great influence on customer outsourcing decision in Orange Telkom Kenya ltd. The influence may be caused by the ability of vendors to cope with the changing business needs and also resource capacity of the vendor since without robust distribution even the best product or service fails. Again, the influence was found to have been caused by the ability of the vendor maintaining confidentiality. Lastly the study found that customer outsourcing service may or may not interfere with brand integrity. This concurs with Foster, James and ventus (2015) who claims that without robust distribution even the best product or service fails.

CONCLUSIONS

From the findings, the study concludes that cost as determinant had a positive influence on the customer outsourcing decision in Telkom Kenya ltd. The influence was deduced to be brought by the fact that there is reduced operation costs in that the cost incurred for both physical and human resources in order to complete an exchange of services between Telkom Kenya Ltd and its customers is reduced when services to customers are outsourced. Finding that, customer service outsourcing may result in hidden contractual costs in that Telkom Kenya Ltd will have to award contracts to vendors who will render services to its customers, can be inferred to have a strong influence on customer service outsourcing.

In relation to satisfaction, the study concluded that customer satisfaction as determinant had a positive influence on the customer outsourcing decision in Telkom Kenya ltd. The study deduced that as a result of customer service outsourcing there was a reduction in dropped calls at Telkom Kenya ltd since customers could easily access outsourced services. In addition Telkom Kenya ltd subscribers were satisfied by the services offered by the outsourced call centers. It was also revealed that use of modern technology in offering services which is faster and efficient can be enabled by Telkom Kenya ltd through customer service outsourcing.

Concerning vendor capacity, the study concluded that vendor capacity has a positive influence on the customer outsourcing decision in Telkom Kenya ltd. The study claims that resource capacity of the vendor has a great influence on customer service outsourcing in form of the ability of a vendor to accommodate other responsibilities by being an ambassador of Telkom Kenya ltd in the market. Again it was revealed that the ability of a vendor to cope with the changing business need as well as the capacity of outsourced vendors to maintain confidentiality influences customer service outsourcing.

Further, the study concluded that business strategies positively influence customer service outsourcing decision in Orange Telkom Kenya Ltd. The study deduced that Telkom Kenya ltd.'s desire to have an accelerated business development would be achieved through customer service outsourcing. Again the study concluded that customer service outsourcing gives Telkom Kenya ltd opportunity to grow in the market presence as well as access to strategic business advice. Due to this, there is a need to focus on customer service outsourcing.

The study finally concludes that cost had the greatest influence on the customer outsourcing decision at Telkom Kenya Ltd in Kenya, followed by customer satisfaction, then business strategies while vendor capacity had the least influence to the customer outsourcing at Telkom Kenya Ltd in Kenya. This shows that organizations in Kenya would reduce both operational costs and labour costs if they practice customer service outsourcing successfully.

RECOMMENDATIONS

Customer Satisfaction

The study found that customer outsourcing decision barely increases customer base. Therefore the study recommends that organizations in Kenya should focus on increasing the customer base by making sure that their customers are satisfied. This can be done through offering a free newsletter about the organizations, carrying out customer surveys to ask for customer opinions, keeping up and maintaining excellent customer support and service and keeping organization's website content fresh and updated.

Vendor Capacity

The study additionally found that for organizations in Kenya to carry out customer outsourcing decision, they rely on vendor capacity and the vendors' ability to cope with the changing business needs. Therefore the study recommends that the organization's need to choose viable vendors to work with while outsourcing services. This can be done by undertaking a vendor survey to determine the vendor's capacity, vendor's ability to cope with the changing business needs and also the vendors' ability to maintain confidentiality.

Business Strategies

Regarding business strategies, the study found that the reason as to why customer outsourcing decision is a failure to most of organizations in Kenya is the inability to share risks. The study recommends that once the organizations decide to carry out customer service outsourcing they should be ready to share risks with the agents or clients contracted to carry out business on their behalf. The study further recommends that the organizations in Kenya should take customer service outsourcing as only option to access superior technology, strategic business advice and also opportunity to grow in market presence. This will make them to be at par as far competition in the market is concerned.

Cost

The study finally found that cost is a major influence on customer outsourcing decision. Therefore the study recommends that the organizations in Kenya should put into consideration all forms of cost when deciding to carry out customer service outsourcing. The study again recommends that organizations should consider customer service outsourcing as the only way to reduce labour and operational costs.

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