



EVALUATION OF PROJECT OUTSOURCING RISKS ON PROJECT PERFORMANCE IN SELECTED COMPANIES IN THE TELECOMMUNICATION SECTOR IN KENYA

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Abstract

The aim of this study was to evaluate project outsourcing risks on project performance in selected companies in the telecommunication sector in Kenya. The objectives of the study were to establish the influence of financial risk in project outsourcing on project performance in telecommunication industry in Kenya, to examine the influence of performance risks in project outsourcing on project performance in telecommunication industry in Kenya and to identify the influence of lock in risks in project outsourcing on project performance in the telecommunication industry in Kenya. This study was carried out using a cross sectional survey design. The target population comprised of 135 respondents from the 5 Departments which include projects department, administration department, presales department, sales department, service delivery and support department in AVIAT Networks (61 respondents) and Huawei Kenya (74 respondents). The sample size comprised of 100 respondents. The main data collection tools were questionnaires for the employees and interviews for managers. Before collecting the actual data, the researcher carried out a pilot study in Linksoft Communication Systems Ltd to assess the clarity of the questionnaire items so that those items found to be vague or inadequate are discarded or modified to improve the quality of the research instruments. The organizations management were contacted to permit the researcher to carry out the study within the organizations.

Key Words: *Project outsourcing risks, Project performance*

Background to the Study

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender, 2009). Kubr (2002) defines outsourcing as a contractual elimination and transfer of the activity, for which the organization decides not to perform it itself in future, to the external business entities. Such an operating strategy in his view, allows the efficient allocation of resources.

Outsourcing is nothing less than the wholesale restructuring the corporation around core competencies and outside relationships. The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labour cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Bacon, 2009). Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn, 2000).

In industry society, outsourcing began in manufacturing. In order to reduce the cost after the great depression, manufacturers began to think of outsourcing complex production tasks instead of building their core competencies through controlling the production process from end to end vertically (Lonsdale & Cox, 2000). Most large manufacturing firms have had outsourcing relationships for decades, such as the relationship of the automobile industry to many different producers of metal, glass, rubber and electrical products.

A survey released by Lee (2003) pointed out that nearly half of the companies in Europe and USA are considering outsourcing in their procurement operations within three years more than doubling the 22% of respondents who said they currently outsource aspects of procurement. Besides, 31% of the largest companies surveyed said they presently outsource some aspects of procurement, while another 36% said they plan to do so in the future. Advancements in Information Technology (IT) also promoted companies to outsource certain technical functions. As technology has continued to evolve, more sophisticated functions are now being outsourced. For instance, data management, document storage and technology platform maintenance etc. according to Pandey & Bansal (2003) survey, whose purpose were to identify and measure IT outsourcing trends around the world, of the 612 IT professionals surveyed, 72% revealed that they are currently outsourcing several IT functions, with 14% outsourcing 50% or more of their IT functions.

Kotabe (2008) argues that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies. Mowery, Oxley & Silverman, (2006) found that, in general, equity-based alliances were more effective than contract-based outsourcing. Steensma, Kevin and Corley (2000) suggest that the outcomes from technology partnerships for sourcing firms depend on the interaction between technology attributes and the

interdependence between source and sourcing firms.

Frayer et al. (2001) suggest that in order for an outsourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities.

The telecommunication sector in Kenya is well developed and key telecommunication operator players include Telkom Kenya (Orange, France Telecom), Safaricom (Vodafone), Airtel (formerly Zain, Celtel, Kencell), Essar Telecommunication Kenya (Yu, formerly Econet). The two major players are Safaricom, the clear market leader in the mobile services segment and Telkom Kenya, the country's incumbent fixed-line provider and the major player in the fixed line telecommunication segment. Studies addressing service provider strategy formulation, project outsourcing risks, service line and industry sectors have not received due attention in outsourcing research. Several scholars have examined the issue of country selection for client firms intending to outsource and suggested selection process and criteria that suits clients' desired objectives (Graf and Mudami, 2005). This study sought to evaluate project outsourcing risks on project performance in selected companies in the telecommunication sector in Kenya.

Statement of the Problem

Outsourcing does not come without risks. According to Mulat (2007), one of the main risks that are incurred when outsourcing is practiced is that, clients leave the supply of the product or service in the hands of someone whom they cannot control, contrary to controlling their own supply. Saravanja (2006), other major

failures in outsourcing deals is due to a breakdown in the overall relationship between the stakeholders in the outsourcing agreement, which includes loss of shared vision, operational concern dominant, lack of good communication and customers are complaining not getting sufficient attention from provider

Objectives of the Study

1. To establish the influence of financial risk in project outsourcing on project performance in the telecommunication sector in Kenya.
2. To examine the influence of performance risks in project outsourcing on project performance in the telecommunication sector in Kenya.
3. To identify the influence of lock in risks in project outsourcing on project performance in the telecommunication sector in Kenya.

Research Questions

This study tried to answer the following research questions:-

1. What is the influence of financial risk in project outsourcing on project performance in the telecommunication sector in Kenya?
2. How does performance risks in project outsourcing influence project performance in the telecommunication sector in Kenya?
3. How do lock in risks in project outsourcing influence project performance in the telecommunication sector in Kenya?

Review of Literature

Project Outsourcing Risks

Outsourcing is an increasingly popular method of achieving performance improvement.

However, the results have been mixed. Some organisations have not achieved the desired benefits associated with outsourcing and experienced outsourcing failure instead (Gonzalez et al., 2005). According to Wright (2004), total dependence on the services provided by the third-party outsourcing firm can become a major problem for organizations. Upon entering the outsourcing relationship, the organization turns over all control of its information systems to the outsourcing firm. Anne and Brian (2007) classified the risks of outsourcing into the following types:-

Financial Risks

The cost of internal versus external supply is almost always a major consideration in making the decision to outsource. However, it is common to find that the total costs of the targeted outsourced functions are not well understood (Heywood, 2006). Many companies struggle to identify the actual tasks performed by the functions being outsourced. These unknowns may affect the cost of the outsourcing or the level of satisfaction with the end product or service. Total costs including functional interdependencies must also be understood because they often drive costs indirectly related to the outsourced function. These total costs must also be included in the quantitative analysis (Nakatsu & Iacovou, 2009).

A number of IT departments work with neutral budgets. Vendors, just like any other organization, are interested primarily in making money. Thus, contracting one's IT services to third party vendors means increasing costs (Ketler and Walstrom, 2003). Also, IT outsourcing needs contract management, a process that is not only new to organizations, but also is an expensive exercise to undertake.

On a general note, these costs are estimated at 3-8 per cent of the costs of IT services performance (David et al., 2002).

Performance Risks

Implementing a successful outsourcing strategy for a process involves analysing a number of factors, including the contribution of the process to competitive advantage and the relative capability of the organisation in the process. The outsourcing framework integrates a number of important performance management considerations. These include developing critical success factors, analysing internal performance before outsourcing, cost analysis, benchmarking, and performance measurement and management throughout the outsourcing relationship (Aubert & Rivard, 2008).

Adeleye (2002) organisations often find it difficult to distinguish between core processes that should be performed internally and non-core processes that should be outsourced. A key aspect of effective outsourcing is to develop performance measures for processes before outsourcing. More specifically, where organisations outsource their processes without developing performance measures, they cannot know whether service providers are executing processes better or worse than internal functions. If the outsourcing framework logic is strictly adhered to, cost analysis in the outsourcing decision should involve comparing the costs of sourcing a process internally or from an external service provider. However, this is a major challenge for a number of reasons, as seen by the findings here. Unless the sourcing organisation and the service provider have standardised processes, it is impossible to derive fully objective cost comparisons. Another limitation is the amount of cost data that

service providers are willing to provide, due to the risks of competitors accessing such sensitive data (Aubert & Rivard, 2008).

An organization selects a service provider based on the requirements of today's Information Technology (IT) needs. This, in carrying out, needs a thorough selection process that includes pre-defined goals of the outsourcing and expectations (Lacity & Hirschheim, 2003). This places the service recipient in a difficult position to predict future information needs because might affect today's outcome of the selection process. Additionally, future consolidation (mergers and acquisitions) in the ITO service providers market might consequently influence today's outcome of the choice-making process. Equally, a modification in the service provider's strategy might impact the whole process (Cullen & Willcocks, 2003).

Lock in Risks

The moment IT services are contracted to third party vendors; the responsibility for the service delivery is being handed to the service provider. This is a huge step for organizations, as it leaves them no option than to wait or rely on the service provider. Rather than manage the internal IT department, the organization now have to discuss with third parties. And the realization of these needs will be based on a contract, which narrows the recipient's elbowroom (Feeny, 2007).

Catherine (2004) explained further a major outsourcing risk identified by academics and accounting firms was the issue of total dependence. This can be a major problem for organizations because, upon entering into the relationship, the recipient company turns over all control of its information systems to the IT service provider. Consequently, the organization's functions of IT cannot be

performed, nor can changes be effected, without the cooperation and / or participation of the service provider (outsourcing firm). More so, Catherine (2004) stated further that when IT functions are performed internally, the IT staff is able to tailor data processing, application usage, and so on to meet the needs of the company. The outsourcing company can however be ignorant of changes in the industry and as such incapable of tailoring to the specific needs of the company. Thus, the recipient company might have to spend money, time and energy convincing the service provider to utilize the new technologies available to the sector.

Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services was expected to increase to \$200 billion by the year 2001 (Lau and Hurly (1997). A study conducted by Mullin R. (1996) indicated that two-thirds of companies world-wide already outsource at least one business process to an external third party. This practice appears to be most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought (Goldstein, 1999; Bacon, 1999). Lau and Hurly (1997) find a significant relationship between outsourcing and profitability.

It is widely recognized that IT businesses in Central and Eastern European (CEE) countries execute IT outsourcing deals, focusing on complex and knowledge-intensive processes, software engineering, and R&D. Such operations require substantial expertise and innovation which is provided by the available young and talented IT professionals in this region (Kaila, 2011). At the end of 2009, the software development and IT outsourcing services industry in CEE countries successfully overcame the challenges of 2008-2009 recession and returned to its growth trajectory. Year 2009 was the most problematic when the

industry showed a 2-5% decrease in the IT outsourcing service volume. This industry utilized the downturn to restructure the business processes within companies and to improve the quality of operational management processes. The next period (2010-2011) showed growing demand to IT outsourcing in the CEE region realizing a noteworthy market growth of 15-20%. This way the volume of CEE outsourcing market reached 5 billion USD in 2010 and was expected to reach more than 6 billion in 2011 (CEEEOA, 2012).

Loh (1994) takes a broader perspective of organizational economics to examine the effects of the firm costs and dyadic costs on IT outsourcing. His results indicate that the hypothesized positive relationships between asset specificity and uncertainty and dyadic costs are not supported empirically. However, because the dyadic costs are represented as a second-order factor, and thus not directly measured, these statistically non-significant results can only be interpreted, in terms of measurement, as lack of convergent validity of the first-order constructs on the second-order one (the dyadic costs). As a result, the implications of transaction attributes on governance costs and outsourcing remain largely unchecked.

Grover et al. (1996) investigated the relationship between the extent of outsourcing and outsourcing success. Their results showed that the relationship between the two is likely to vary with different IS functions, thus providing support to the theoretical premise of TCT. They also recognize, however, that some IS functions, e.g. application development, could comprise a range of projects varying in degree of asset specificity, and thus that their findings might require further refinements. In addition

to the above survey research, there are also some related case studies. Lacity & Hirschheim (1993) use TCT and a political model as alternative theoretical bases to examine decisions to outsource IS activities in 13 firms. Aubert et al. (1996a) use TCT to explain the choice of outsourced activities and the terms and management of the outsourcing contracts. Their findings suggest the usefulness of transaction cost reasoning in explaining outsourcing behaviour. Also, Lacity & Willcocks (1996) analysed 61 sourcing decisions and outcomes made in 40 US and UK organizations according to the transaction cost framework. However, they found that only 13 of the 61 sourcing decisions mapped as predicted by TCT.

According to Greaver (1999) core competencies are innovative combinations of knowledge special skills, proprietary technologies, information, and unique operating methods Organizations use to produce products or services which customers value and want to buy. According to Wario Guyo (2012) the core capabilities of an organization include critical skills of employees, management systems norms and values. Skinner (1969) identified the benefits of concentrating on a small, manageable number of tasks at which the operation becomes excellent. Findings by Maina G.M (2011) in a research aimed at whether linkage to large enterprises promotes SMEs growth indicated that business linkages between SMEs and large enterprises were important because they made it possible for small businesses and their associations to specialize on their core competences while relying on others to undertake tasks for which they had less competence.

2.2.1 Resource Dependent Theory

Resource dependence theory (RDT) according to Hillman et al (2008) is centered on the external environment of a firm and argues that all firms find themselves, to a certain degree, dependent on some elements from their external environment such as land, labor, capital, information or a specific product or service. Rao (2004) argue that a RDT stresses the organizational necessities of adapting to the different organizational uncertainties. Furthermore, Casciaro and Piskorski (2005) propose that a firm's survival relies on its capability to gain control over its external environment, acquisition of necessary resources from the environment and its linkages with it.

In order to acquire necessary external resources a company usually needs to establish an affiliation with other companies that possess the needed resources. RDT according to Casciaro and Piskorski (2005) provides a useful perspective which can be used to study the relationship between an organization's decisions to outsource IT functions and its effectiveness. According to Rao (2004) there are three critical factors that determine the external dependencies of one firm from another and those are: the extent to which a firm requires resources for the sustained survival, the extent to which an interest group has discretion over the resource allocation and use and the extent of control over the resources by the interest group which is an important factor in determining the dependence of the organization.

As a result, an organization's dependence on some other organization is established by the importance of the resources to the organization, the number of potential suppliers and the cost of switching suppliers (Hillman et al., (2008). Additionally, the same authors argue

that the resource dependence perspective for outsourcing provides a framework for analyzing resource dimensions (importance, discretion, and alternatives) which could be used to determine the firm's dimensions of resources and could represent a base for a firm's decision to outsource certain IT functions. Sometimes an organization's strategy, in order to be implemented successfully, might influence its decision to acquire some resources from the external providers if the necessary resources are not available within the organization.

Conceptual Framework

Figure 1 shows the interrelationship of independent variables which are financial risks, performance risks, strategic resource risks, operational risks and dependent variable as the performance of outsourced projects. The intervening variable which is the organizational strategy determine the success of dependent variable.

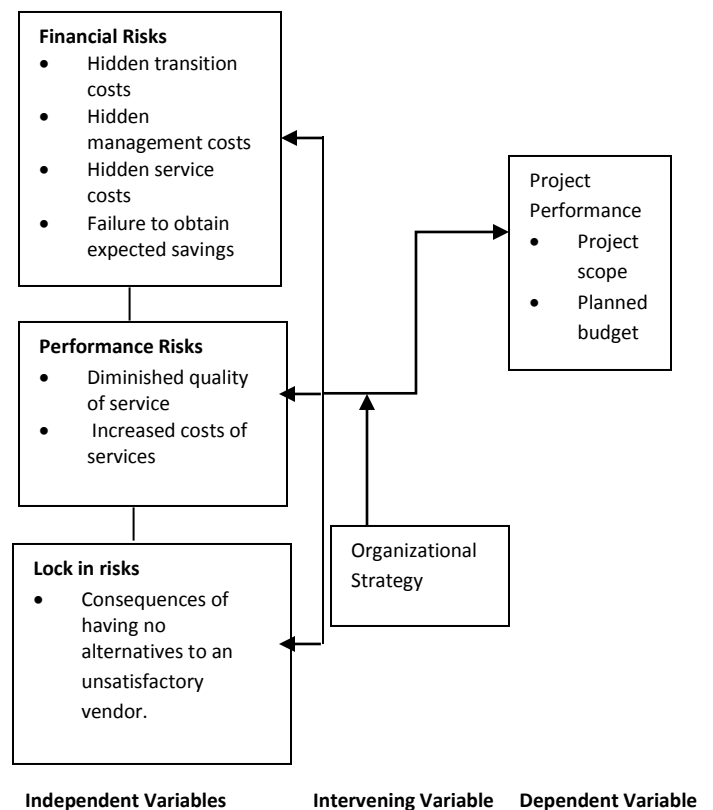


Figure 1: Conceptual Framework

The literature reviews that outsourcing is a global phenomenon. Once the outsourcing decision has been taken it becomes necessary, to justify the decisions; identify the risks, plan for evaluating the performance of the vendor, set the criteria for selecting vendors, set the criteria for resolving disputes and as well as defined how to manage the contract afterward. The activities are important as they help in finding out the possible difficulties that may arise during implementation and the definitions of strategic objectives.

As Lamming (1993) notes as suppliers may be significantly more advanced, outsourcing to them allows organizations to exploit their more advanced technologies. Successful implementation of outsourcing has been accredited with helping to improve quality, increase capacity and productivity, lower innovation costs and risks. Outsourcing enables an organization to benefit from complimentary assets by partnering with organizations whose resource bases compliment one's own Mowery (1988). Organization should consider outsourcing more if not all their non-core business to outside providers as a major strategy of remaining competitive. This is because outsourcing gives company management and staff more time to concentrate on core business to produce quality product to out compete their competitors in the marketplace and hence a source of competitive advantage.

Research Gaps

Maina (2009) studied outsourcing service in the mobile phone industry in Kenya and found out that the major reasons for outsourcing were search for local expertise, market knowledge,

language issues, cost effectiveness, effective coverage, special expertise and focus on core competence. Outsourcing saves on valuable time. Usually companies that outsource can make faster deliveries to their consumers. The overall result is that their consumer's needs are satisfied.

Many studies have been carried out on various aspects of outsourcing. For example Kotable (1999) focused on outsourcing performance measures. He identifies three types of performance measures as necessary components in any outsourcing measurement system, strategic measure, financial measures and quality measures. Gakii (2010) carried out a study on challenges of implementing outsourcing in East Africa breweries. She found out that the organization needed to develop clear criteria on the choice of service providers. Boya (2010) carried out research on the implementation of the outsourcing strategy in cement manufacturing industry in Kenya. He established that the strategy had assisted in lowering the operation costs of the companies. Bosire (2010) carried out a survey on impact of outsourcing on lead time and customer service in supermarkets in Kenya. The study found a positive correlation between outsourcing and lead time and cited mistakes in implementing the strategy.

RESEARCH METHODOLOGY

Research Design

This study was carried out using a cross sectional survey design. Cross-sectional studies are carried out at one time point or over a short period and they are sometimes carried out to investigate associations between risk factors and the outcome of interest. Cross sectional survey provides a quick, efficient and accurate

means of assessing information about the population. Also it is more appropriate where there is lack of secondary data. It was a cross sectional survey because data was gathered from the performance of outsourced projects in selected companies in the telecommunication sector in Kenya.

Population of the Study

Orodho (2002) defines target population as a large population from whom a sample population is selected. The target population was 135 respondents comprising of 61 respondents from AVIAT Networks and 74 respondents from Huawei Kenya.

Table 1: Target Population Sampling Matrix

Department	Population
Projects Department	45
Presales department	32
Sales department	25
Service delivery and support	23
Administration	10
Total	135

Sample Size

Sampling was done proportionately according to the size of the department and a total of 100 respondents were selected for the study as shown in table 1. Taro Yamane's formula was used to determine the total sample for the study. The formula assumes normal distribution and was therefore considered suitable for determining an appropriate sample size from the entire population because the study involved all the departments. According to Hussey and Hussey (1997) a sampling error of less than 10% and

confidence levels of more than 90% is acceptable, the study therefore adopted a sampling error of 5% to determine the minimum sample size that could be used for the purposes of this study.

Questionnaires

Orodho (2004) defines a questionnaire as an instrument used to gather data, which allows a measurement for or against a particular viewpoint. He emphasizes that a questionnaire has the ability to collect a large amount of information in a reasonably quick space of time. The researcher will use questionnaires to collect data from the employees. The instrument was chosen because the targeted population is considered literate which minimizes the interpretation of the questions for their understanding to capture reliable information. The questionnaires were divided into different sections covering the objectives of the study. Likert scale was used in questions which were testing on the degree of the respondents' agreement with particular variables of the study.

Interviews

An interview is one way of investigating a group's attitudes and opinions. The interview guides contained items covering all the objectives of the study. Bell (1991) claim that interviews provide reliable, valid and theoretically satisfactory results than a questionnaire especially in societies where interaction is highly personalized. He goes on to say that through an interview, one gets better cooperation and more informative answers than a questionnaire. The interview schedules consisted of both closed and open-ended questions to allow for probing of the respondents to elicit insightful information.

RESEARCH FINDINGS AND DISCUSSIONS

From the targeted population of 100 respondents who were all drawn from the five (5) departments from the two organizations, a total of 96 responded. The research instrument was administered to the respondents who completed the questionnaires on the spot or later returned the completed instrument. Out of the 100 questionnaires administered, 96 were dully filled and returned. This added up to a response rate of 96.0% which was considerably sufficient to guarantee representative findings. This response rate is adequate and conforms to assertions by Mugenda and Mugenda (2003) that a 50% response rate is adequate for analysis and reporting, a rate of 60% is good while a response rate of 70% and over is excellent. Non-responses were attributed to unavailability of respondents even with persistent follow ups and the respondents considering the information sensitive. It is also in line with Berg (2004) who indicated that, a response rate of 60% and above is adequate to permit data analysis. Table 4.1 shows the contributively proportions of responses obtained.

Majority 52(54.2%) of the respondents were male and 44(45.8%) were female. This is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

Majority 37(38.5%) of the respondents had worked for a period between 6 and 10 years, 29(30.2%) for a period of over 10 years, 21(21.9%) between 2 and 5 years and only 9(9.4%) had worked for a period less than two years. These findings imply that majority of the respondents had worked for long periods, which shows that they had wealth of

experience which would enable them not only to contribute to the research adequately.

Financial Risks

The first research objective sought to establish the influence of financial risk in project outsourcing on project performance in the telecommunication sector in Kenya. The findings were obtained from a list of items supplied to the respondents in a Likert Scale. All the respondents agreed that there are financial risks in project outsourcing.

Table 2: Financial Risks and Outsourced Projects

	Agree f(%)	Undecided f(%)	Disagree f(%)	M	SD
Organizations incur hidden transition costs on outsourced projects	50(52.1)	1(1.0)	45(46.9)	4.67	0.886
Outsourced projects lead to increased management costs	39(40.6)	3(3.1)	54(56.3)	4.44	0.757
Outsourced projects lead to hidden services costs	49(51.0)	1(1.0)	46(47.9)	4.11	0.646
Outsourced projects results to failure to obtain expected savings	24(25.0)	1(1.0)	71(73.9)	4.32	0.738
Contracting one's IT services to third party vendors can lead to increased costs	44(45.8)	0(0.0)	52(54.2)	4.01	0.721

Key: A – Agree; U – Undecided; D – Disagree; M – Mean; SD – Standard Deviation; f– Frequency

Table 2 shows that the responses on financial risks and outsourced projects ranged from 4.67 to 4.01. The respondents scored high on the statement that; Organizations incur hidden transition costs on outsourced projects. On the other hand, the respondents scored low on the statement that Outsourced projects results to failure to obtain expected savings. These findings are in line with Nakatsu and Iacovou (2009) who found that many companies struggle to identify the actual tasks performed by the functions being outsourced. These unknowns may affect the cost of the outsourcing or the level of satisfaction with the end product or service. Total costs including functional interdependencies must also be understood because they often drive costs indirectly related to the outsourced function. These total costs must also be included in the quantitative analysis. According to Lange's et al (2005) reduced costs would come from economies of scale and scope. Scale economies would come from using focused large scale specialists for activities where the outsourcers lack the necessary volume of requirements for current technology. Scope economies would be gained through access to a wide range of service provided by niche specialists.

Performance Risks

The second research objective sought to examine the influence of performance risks in project outsourcing on project performance in the telecommunication sector in Kenya. The findings were obtained from a list of items supplied to the respondents in a Likert Scale. All the respondents agreed that there are performance risks in project outsourcing.

Table 3: Performance Risks and Outsourced Projects

	A	U	D		
Statement	f (%)	f (%)	f (%)	M	SD
Outsourced projects leads to diminished quality of service	28(29.2)	1(1.0)	67(69.8)	4.11	0.726
Outsourced projects leads to increased costs of services	41(42.7)	0(0.0)	55(57.3)	3.99	0.775
Outsourced projects cut down operational costs	52(54.2)	1(1.0)	43(44.8)	3.91	0.634
Outsourced projects requires high degree of domain expertise	54(56.3)	1(1.0)	41(42.7)	3.56	0.895
Outsourced projects handle sudden spikes of work	35(36.5)	3(3.1)	58(60.4)	3.44	0.715

Key: **A** – Agree; **U** – Undecided; **D** – Disagree; **M** – Mean; **SD** – Standard Deviation; **f**– Frequency

Table 3 shows that the responses on performance risks and outsourced projects mean ranged from 4.11 to 3.44. The respondents scored high on the statement outsourced projects require high degree of domain expertise. On the other hand, Outsourced projects leads to diminished quality of service. These findings concur with Adeleye (2002) who observe that organisations often find it difficult to distinguish between core processes that should be performed internally and non-core processes that should be outsourced. A key aspect of effective outsourcing is to develop performance measures for processes before outsourcing. More specifically, where organisations outsource their processes without developing performance measures, they cannot know whether service providers are executing processes better or worse than internal

functions. Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of their in house operations report significant savings on operational costs Rimmer (2011). Laugen et al (2005) found a co relation between outsourcing best practice and high performing companies. Many companies decide to outsource because it cut costs such as labour costs, regulatory and training costs. Foreign countries tend to have workers who will complete the same work as in the United States but for less than half the salary that an American will take. This encourages companies to outsource overseas to find foreign workers who are willing to work for these lower wages.

Lock In Risks

The third research objective sought to identify the influence of lock in risks in project outsourcing on project performance in the telecommunication sector in Kenya. All the respondents agreed that there are lock-in risks in project outsourcing.

Table 4: Lock-In Risks and Outsourced Projects

	A	U	D		
Statement	f (%)	f (%)	f (%)	M	SD
Outsourced projects leads to difficulties in renegotiating contracts	53(55.2)	1(1.0)	42(43.8)	2.81	0.644
Outsourced projects leads to disputes and Litigation	46(47.9)	0(0.0)	50(52.1)	2.79	0.779
Outsourced projects leads to costly contractual amendments	26(27.1)	1(1.0)	69(71.9)	2.75	0.787

Key: A – Agree; U – Undecided; D – Disagree; M – Mean; SD – Standard Deviation; f– Frequency

Table 4 shows that the responses on lock-in risks and outsourced projects ranged from 2.81

to 2.75. The respondents scored high on the statement Outsourced projects leads to difficulties in renegotiating contracts. On the other hand, the respondents scored low on the statement Outsourced projects leads to costly contractual amendments. These findings are in line with Catherine (2004) who explained a major outsourcing risk identified by academics and accounting firms was the issue of total dependence. This can be a major problem for organizations because, upon entering into the relationship, the recipient company turns over all control of its information systems to the IT service provider. Catherine (2004) stated further that when IT functions are performed internally, the IT staff is able to tailor data processing, application usage, and so on to meet the needs of the company. The outsourcing company can however be ignorant of changes in the industry and as such incapable of tailoring to the specific needs of the company.

Measures of Dependent Variable

Figure 2 : Measures of Project Performance

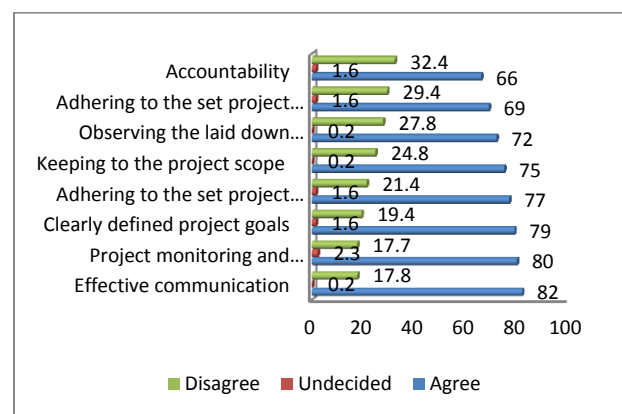


Figure 2 shows that majority 82% on measures of project performance indicated effective communication, 80% project monitoring and control, 79% clearly defined project goals, 77% adhering to the set project budget, 75% keeping

to the project scope, 72% observing the laid down quality standards, 69% adhering to the set project timelines and 66% accountability. According to Belcourt (2006), successful implementation of an outsourcing strategy has been credited with; cost increase profitability and productivity. Therefore, organizations are system; enjoined to reduce the outsourcing strategy and improve their service delivery.

Table 5 :Results of Multiple Regressions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.823	0.677	0.661	0.183

The three independent variables that were studied, explain 66.1% of the project performance as represented by the adjusted R^2 . This therefore means that other factors not studied in this research contribute 33.9% of the project performance. Therefore, further research should be conducted to investigate the other factors (33.9%) that affect project performance in telecommunication sector in Kenya.

Table 6: ANOVA results of the regression analysis

ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	11.211	4	2.802	9.874	0.0103
Residual	6.382	14	0.456		
Total	17.593	18			

The significance value is 0.0103 which is less than 0.05 thus the model is statistically

significance in predicting how various risks affect project performance in telecommunication sector in Kenya. The F critical at 5% level of significance was 2.85. Since F calculated is greater than the F critical (value = 9.874), this shows that the overall model was significant.

Table 7: Regression Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	
Constant	1.382	0.645		2.143 0.0201
Financial Risks	0.769	0.091	0.145	8.451 0.0313
Performance Risks	0.724	0.199	0.082	3.638 0.0210
Lock-In Risks	0.824	0.311	0.004	2.649 0.0101

Multiple regression analysis was conducted as to determine the relationship between financial sustainability and the four variables. As per the SPSS generated table above, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$) becomes: $Y = 1.382 + 0.769X_1 + 0.724X_2 + 0.824X_3$

The regression equation above has established that taking all factors into account (financial risks, performance and Lock-in-Risks) constant at zero, project performance in the telecommunication sector will be 1.382. The findings presented also shows that taking all other independent variables at zero, increase in financial risk will lead to a 0.769 decrease in project performance; increase in performance risk will lead to a 0.724 decrease in project performance; also increase in lock-in risks will lead to a 0.824 decrease in project performance. This infers that lock-in risks contribute most to project performance in the telecommunication sector in Kenya followed by financial risk while performance risk contributed the least to

project performance in the telecommunication sector in Kenya.

At 5% level of significance and 95% level of confidence, financial risks had a 0.0313 level of significance; performance risks showed a 0.0210 level of significance and lock-in risks showed a 0.0101 level of significance. This shows that all the variables were significant ($p < 0.05$) with own lock-in risks being the most significant and financial risks the least significant.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Conclusion

From the findings, it can be concluded outsourcing has positively impacted the performance of project in the telecommunication sector in Kenya through

performance, finance and lock-in risks. Project outsourcing risks in outsourcing can be managed through proper contractual agreement and quality standards. In addition, continuous monitoring of projects can also reduce risks. Both the organizations have risk contingency plans. Broadly, risk is measured on performance metrics over time. Risk factors are weighed to reflect financial implications as well. The metrics to measure the effectiveness of an outsourcing arrangement are checked frequently, and are brought up during the quarterly review meetings. Other than effective project management, and participative association of vendors in formulating design specifications, it is very important to have planned and periodic reviews to improve the communication with the team members. The concept of “one-team” should be strengthened. Also quality management programs and metrics should be followed.

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