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**ADDIS ABABA UNIVERSITY**

**SCHOOL OF COMMERCE**

**DEPARTMENT OF PROJECT MANAGEMENT**

**ASSESSMENT OF PERFORMANCE  
EVALUATION OF OUTSOURCE MANAGEMENT  
CONTRACT: A CASE STUDY OF ADDIS ABABA  
LIGHT RAIL TRANSIT (AALRT)**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE  
DEPARTMENT OF PROJECT MANAGEMENT IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR**

**THE DEGREE OF MASTER OF ARTS**

**By**

**Hou Qingqing**

**Addis Ababa, Ethiopia**

**June, 2018**

**ASSESSMENT OF PERFORMANCE EVALUATION OF OUTSOURCE  
MANAGEMENT CONTRACT: A CASE STUDY OF ADDIS ABABA LIGHT RAIL  
TRANSIT (AALRT)**

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**Hou Qingqing**

**GSE/0094/08**

A Thesis Submitted to the Department of Project management as a Partial Fulfillment of the  
Requirements for the Award of Master of Arts degree in Project Management

Advisor: Worku Mekonnen( PhD)

ADDIS ABABA UNIVERSITY

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APPROVED BY BOARD OF EXAMINERS

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## DECLARATION

I declare that this research paper entitled “**Assessment of Performance Evaluation of Outsource Management Contract: A Case Study of Addis Ababa Light Rail Transit (AALRT)**” is my original work and has not been used by others for any other requirements in any other university and all sources of information in the study has been appropriately acknowledged.

**By: Hou Qingqing**

**Signature:** \_\_\_\_\_

# STATEMENT OF CERTIFICATE

**To: Addis Ababa University  
School of Commerce  
Department of Project Management**

**Title: ASSESSMENT OF PERFORMANCE EVALUATION OF  
OUTSOURCE MANAGEMENT CONTRACT: A CASE STUDY OF ADDIS  
ABABA LIGHT RAIL TRANSIT (AALRT)**

This is to certify that Hou Qingqing has carried out her project on the topic entitled “Assessment of Performance Evaluation of Outsource Management Contract: A Case Study of Addis Ababa Light Rail Transit (AALRT)”. This work is original in nature and is suitable for submission in the partial fulfillment of the requirement for the Degree of Master of Arts.

**Worku Mekonnen (PhD)** \_\_\_\_\_  
**06/2018**

**(The Research Advisor)**

**Signature**

**Date**

## **ACKNOWLEDGEMENT**

First and foremost, I would like to thank my advisor, Worku Mekonnen(PhD) who encouraged and supervised me by shared his knowledge and research insight. Without the help of whom, I would not have been able to complete this thesis. Thank you very much; I have learned a lot from you.

I would also like to express my deepest gratitude to staffs of Addis Ababa Light Rail Transit (AALRT) and ERC for assisting me in providing all necessary information and data required for my thesis work and also special thanks to Mr. Chang Nan, Technical Staff in the Maintenance Department, AALRT who contributed a lot in facilitating interview sessions with AALRTS management contractor staff.

I would also like to thank Mr. Wang Wei, AALRT General Manager on behalf of the the management contractor, Mr. Muluken Aseffa, Local General Manager, Mr. Fang Lin Bin, AALRTS Director, Maintenance Center and Mr. Fisseha Mengisteab, Team leader, Operation Contract Administration Department, ERC for giving me their valuable time during the interview sessions.

## **Acronyms and Abbreviations**

AALRT: Addis Ababa Light Rail Transit

SZMC: Shenzhen Metro Group Co., Ltd.

CREC: China Railway Group Limited

ERC: Ethiopian Railways Corporation

SLA: Service Level Agreement

TSO: Technology Service Outsourcing

BPO: Business Process Outsourcing

KPO: Knowledge Process Outsourcing

HRO: Human Resource Outsourcing

FDRE: Federal Democratic Republic of Ethiopia

CEO; Chief Executive Officer

DCEO: Deputy Chief Executive Officer

ISO; Organization for International Standards

EPC: Engineering Procurement and Construction

BSC: Balanced Score Card

KPI: Key Performance Indicators:

MC: Management Contractor

## **Abstract**

The objective of this research was to assess the performance of the operations and maintenance contractor outsourcing of AALRT. This research applied qualitative data collection and analysis using both primary and secondary sources. Primary data was collected through interviews and observations of the researcher. Secondary data include survey of empirical literature, documents relevant to the contract and other sources. The respondents for the interview were purposely selected to gather relevant data about the performance in terms of customer service and knowledge transfer. The findings of the research indicated that the performance targets with respect to customer service are not all achieve. However, the targets set for training and development was achieved as per the contract. The research also forwarded major findings and recommendations indicating limitations and future research areas.

**Key Words:** Outsourcing, Outsourcing Life Cycle, Key Performance Indicators (KPIs)

Service Level Agreements (SLAs), Performance Measurement and Outsourcing

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## **Definition of Key Terms**

**Outsourcing:** the act of obtaining service from an external source

**Management outsourcing:** the contracting out of a firm's management to a third party for a short or long period of time.

**Contract or Management Contract-** the binding agreement entered into between the supplier and client as recorded in the contract form signed by the parties

**Service/Services-** service provided by the management contractor

**Contract Price or Management Fee-** the fee payable to the management contractor under the contract for the full and proper performance of its contractual obligations

**Manuals-** operating manuals, procedure manuals, safety manuals, maintenance manuals, warranty requirements or similar materials with respect to the project

**Project-** AALRT project with facilities in the NS line and EW line as presented in the term of reference (TOR)

**Exit plan-** the plan for the transfer of AALRT system and management from the maintenance contractor to the client

**Delivery-** transfer of services from the maintenance contractor to the client in accordance set forth in the contract

**Force Majeure-** event or events which are beyond the reasonable control of the management contractor which make its performance impossible or impractical

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# Chapter One

## 1 Introduction

### 1.1 Background of the study

In business, outsourcing is an agreement in which one company contracts its own internal activity to different company (Tas J. & Sunder, S., 2004). It involves the contracting out of a business process and operational, and/or non-core functions to another party. The concept "outsourcing" came from the American Glossary 'outside resourcing' and it dates back to at least 1981 (J. G. Nellis and David P. 2006).

Business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider (Tas J. & Sunder, S., 2004). Outsourcing includes both foreign and domestic contracting; BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring (or nearby) country is called near-shore outsourcing (Hira R. and Anil H., 2008).

Koonth and Wehrich describe outsourcing as acquiring a product or service from outside supplier rather than producing in the organization or a transfer or delegation of the operation and day-to-day management of the business process to an external service provider (Koonth & Wehrich, 2004).

According to Koontz & Wehrich (2004) the aim of outsourcing may be to reduce costs by saving on personal benefits, or to be able to reassign employees to other tasks that are more important. Other reasons why companies engage in outsourcing includes delivering fast and high quality of service later brings customer satisfaction, gaining access to the best sources available worldwide, sharing of risks between the firm and its suppliers, allocating capital to key success factors, and so on (Koonth & Wehrich 2004).

Outsourcing a company's operation has been in practice for a long time when considering the developed part of the world. Many companies found it beneficial to do so with different reasons to outsource. Some companies outsource their operation to concentrate on their own core competence; others engage in outsourcing for activities with new technological advancements. In the rail transit operations service industry particularly in the operator's side, outsourcing the management of the infrastructure part is a common practice. In Ethiopia, however, the practice of outsourcing is limited to a company's non-core activities which are confined to recruitment service, security service and janitorial service. Thus, we can say that the level of outsourcing is at its infancy in our country.

AALRTS is established to provide accessible and economical transportation service for Addis Ababa city residents. As we know the transportation problem of the capital city is tremendous and the light rail was constructed with the vision to reduce the traffic congestion and shortage of means of transport. The company made operations and management contract with an international company named SZMC to handle the project of managing the operations and

maintenance of AALRTS. The outsource contractor has a previous experience of operations and maintenance of Shenzhen city metro in Peoples Republic of China.

## **1.2 Problem Statement**

Outsourcing contract brings quick and quality of service to customers is a vital antecedent of customer satisfaction which is the ultimate goal of a service rendering organization like AALRTS. As we know outsource contracts are not common in Ethiopia for core organizational functions or major operational projects. The case of AALRTS is one of a kind in the country; this is one of the reasons which inspired the researcher.

There are many problems in the light rail service in relation to customer service and technical knowledge transfer. The existing problems related to customer service are frequent delays, trip cancellations, passenger clearing, inaccessible stations and ticket booths, and the like.

The problems associated with technical knowledge transfer are particularly related with employees in the maintenance and transportation sections. Complaints from the local staff on the efficiency and effectiveness of the programs limit the knowledge transfer process.

The above problems primarily challenge the existence of the organization. Secondly, they affect customer satisfaction and stakeholder's expectations including the owner, the government of Ethiopia. Thus ignoring such problems is not an option as it shakes the foundation of the organization.

Solving the problems related to customer service will increase customer satisfaction by large. On the other hand, since the organization is new, it will build its reputation which is inevitable both economically and politically. Last but not least, is the financial perspective, solving the problems in the customer service will increase the revenue of the organization.

The same is true if the problems related with technology transfer. The solution for this problem increases the self-capacity of constructing and managing light rail projects in the country. It will also enable export of technical expertise in terms of constructing and managing rail transport services in other countries which generates significant foreign currency.

## **1.3 Basic Research Questions**

1. Are the targets for the deliverables set in the management contract achieved or not?
2. How is the performance contractor in conducting customer service and local staff training?
3. What are the factors challenging the attainment of successful performance in accordance with the contract?
4. What are the lessons that can be learned from the management outsourcing contract?
5. What were the driving factors for the management outsource contracting?

## **1.4 Objectives of the study**

### **1.4.1 General Objective**

The objective of this study is to evaluate the performance of the experiences and practices of outsourcing management contract in AALRT in terms of achieving the deliverables. These deliverables are: customer service, and technology transfer.

### **1.4.2 Specific Objectives**

Specific objective of the study are:

- To assess the customer service provided by the management contractor in relation to performance indices
- To assess the issues related with the deliverables on technology and knowledge transfer as per the management contract
- To identify key factors which play their roles in affecting the successes of rendering the customer service
- To point out factors that exist as challenges to practices in the knowledge transfer activities
- To provide relevant recommendations and directions to alleviate the problems in customer service and knowledge transfer in AALRTS management contract

## **1.5 Significance of the study**

The findings of the study will help the company to identify the problems associated with the practice of the management contractor in rendering the contract deliverables. Furthermore, this study helps to fill the knowledge gap to encourage studies in this area of research. Therefore, it is the belief of the researcher that this paper will serve as an input for AALRT to assess the performance of the management contractor during contract close out.

## **1.6 Scope and limitations of the study**

The study will assess the performance of outsource management contract in AALRT in terms of achieving the deliverables. It is limited to the deliverables of customer service and knowledge transfer.

The scope of the study is limited to the operation and maintenance management outsourcing undertaken in AALRT during the period of September 2015 to June 2018. The research is geographically limited the AALRT Head office in Kality. Assessing the deliverables in terms of operation and maintenance is not in the scope of this study.

Anticipated Limitations

- In depth Access to company data and contract documents is anticipated to be challenging due to confidentiality policy of the company
- Consulting top management officials adequately is expected to be difficult to organize due to engagement in urgent operational issues

## **1.7 Organization of the Study**

This paper is organized in five parts. Chapter one provides the introduction which includes background of the study, statement of the problem, basic research questions, objectives of the study, and significance of the study. The chapter also provides definitions for operational terminologies.

The second chapter deals with literature review on the areas of project management and management contract outsourcing. Chapter three discusses about the research methodology. Chapter four deals with data presentation, analysis and discussion based on information obtained from primary data through questionnaire and interviews and secondary data from management officials and published reports in the selected organization.

Lastly, the paper will be concluded in chapter five, which summarizes the main findings, draws conclusions and suggests recommendations regarding shortcomings and other issues that need remedies.

# Chapter Two

## 2 Literature Review

### 2.1 Introduction

Project management is the application and integration of modern management and project management knowledge, skills, tools and techniques to the overall planning, directing, monitoring and control of all dimensions of a project from its inception to completion (PMI, 2013). It is the motivation of all those involved to produce the product/service on time, within authorized cost, quality and to the satisfaction of clients (Fewings, 2005). As can be seen from the above definitions, project management is a wide process which encompasses several to achieve predetermined project objectives.

In order to gain a basic understanding of outsourcing projects in organizations, it was necessary to conduct a comprehensive literature review. This review had three objectives. The first objective was to review sources about the background of outsourcing and previous research works in the area.

The second objective was to assess performance of outsource management contract issues with a case of AALRTS which was signed between ERC and SZMC.

The third objective of this literature review was to identify factors behind the challenges and problems up on the implementation of the management contract during the operation of AALRTS' by considering the contract document and actual practices. The overall objective of the literature review is to gain conceptual and theoretical foundations for the next works of the thesis.

#### 2.1.1 Defining Outsourcing

Merriam-Webster's Online Abridged Dictionary defines the term outsourcing as "*The practice of subcontracting manufacturing work to outside and especially foreign or nonunion companies*". Different researchers define outsourcing in different ways. Outsourcings is either make or buy decision by organizations whether to make a certain activity in house or buy it from outside vendors (Jenster and Pedersen, 2000). Hussey and Jenster defined outsourcing as the process of externalizing tasks and services previously performed in house to outside vendors (Hussey and Jenster, 2003). On the other hand, Kern, Willcocks and Heck (2002) defined outsourcing as the practice of contracting out or selling the organizations asset, people and/or activities to a third party supplier for a monetary payments over an agreed period of time.

Nicholas Beaumont and Amrik Sohal (2004), defined outsourcing as handing over a work that was formerly done inside the organization performed by an external organization. It takes place when organization transfers the ownership of business processes control of functions previously performed in house to an outside contractor. (Beaumont and Sohal, 2004) The key to this

definition is the aspect of transfer of control. This definition differentiates outsourcing from business relationships (Ibid).

Thus outsourcing refers to the concept of looking for expertise to handle certain business functions outside the existing firm. It involves a long-term relationship between the supplier and beneficiary with a high degree of risk-sharing (Ibid).

### **2.1.2 Brief History of Outsourcing**

Outsourcing has been used since the mid-twenties but the mention of outsourcing appeared in 1978 in the literatures. It was in the 1970s that it gained greater momentum when large and diverse corporations were considered to be underperforming and realize they can get their jobs best done through others (Kakabadse & Kakabadse, 2005). But it gained more popularity in the 1990s focusing on carrying out outsourcing of non-core business activities to third parties (Jiang and Qureshi, 2006). Today firms are outsourcing strategic function in addition to the non-core functions that are crucial to their business (Gottfredson et al. 2005).

### **2.1.3 Types of Outsourcing**

Surveys of several literatures show that there are different kinds of outsourcing ranging from the small service outsourcing like janitorial service to a highly complicated business critical outsourcing like manufacturing outsourcing.

According to data from the outsourcer web site as cited by Yetnayet (2016) the outsourcing functions are broadly categorized under three main outsourcing types. These are:

**Technology service outsourcing (TSO):** - Technologies such as electronic commerce, network infrastructure, applications, telecommunication, web sites, etc. changes dynamically and firms might not have the internal capacity to cope up with the change. Due to this fact Firms outsource to third party companies that specialize in such technological innovations.

**Business Process Outsourcing (BPO):**- outsourcing of operational activities to third party. Operational activities of a company include functions like customer relation management, equipment, accounting, HR, logistics, procurement, security, documentations, Insurance, health care, legal service, manufacturing, media and others. This type of outsourcing is further divided into front office activities like marketing, customer care and technical support and back office activities such as billing, payroll, purchasing, etc.

**Knowledge Process Outsourcing (KPO):**- includes outsourcing of advanced company activities to third party. Some of the advanced activities outsourced are management outsourcing, research and development (R&D), technical skill enhancement and others.

**Human Resource Outsourcing (HRO):**- is the process of transferring parts of the HRM functions to a supplier outside of the company. Some HR functions like law advice have been outsourced for a long time now. Armstrong (2006) studied that due to complexity of labor law,

most organizations outsource to legal firms for the management of HR issues related to the labor law.

#### **2.1.4 Motivations for Outsourcing**

Several literatures present different motivations/reasons why organizations undergo outsourcing decisions. As we all can agree, one cannot easily treat all outsourcing decisions motivations to be similar since each organization has its own demands and contexts. Organizations have different environments and contexts which are peculiar which motivate them to decide on outsourcing (Hussey and Jenster, 2003).

Improved quality and transfer of risks to third party also motivate firms to outsource certain activities or functions (Hussey and Jenster, 2003). Client organizations can in short time achieve anticipated benefits because of the outside organization with a world-class standard (Ibid).

Outsourcing is also motivated externally by market competition pressures and the increased complexity in business processes (Jenster and Pedersen, 2000).

There is also a kind of government driven outsourcing, where the government arranges pressures and legislative requirements to encourage or force organizations to contract out some of their internal processes, functions and even major services (Kakabadse and Kakabadse, 2005). This introduces political dimensions into the situation in situations where governments see outsourcing as a tactic to further other agendas such as:

- ✓ Enhancing the expertise and knowhow of an industry by importing new technology or expertise from private sector agencies or from public and/or private international organizations
- ✓ Organizational renewal, making organizations more ‘business like’ or more externally focused (Aulich and Hein, 2005).

Another reason why organizations prefer outsourcing is to concentrate their efforts on core business activities and handing over areas which they don’t possess the knowledge and expertise needed to carry out (Hussey and Jenster, 2003; Jenster and Pedersen, 2000; Pai and Basu, 2007). Outsourcing allows organizations to gain access to world class capabilities and best practices such as new technologies, skills, tools, techniques and procedures that they may not currently possess (Siakas and Balstrup, 2006; Kakabadse and Kakabadse, 2005).

Beaumont and Sohal (2004) summarized the motivations of outsourcing into four factors: the first factor is operational which reflects outsourcing being motivated by efforts to reduce costs, obtain flexibility and to improve performance by accessing the supplier/vendor’s expertise. The second is related with resources which reflect using outsourcing to access skills and resources, to allow more focus on the core business and provide flexibility. The third one is cultural which reflects a desire to eliminate undesirable internal cultural differences and power struggles, and the fourth factor is external that reflects situations in which outsourcing decisions are dictated by circumstances or senior management or the government.

The researcher believes that there are many factors involved in the outsourcing equation, and the importance given to them will depend on the circumstances of each case.

## 2.2 Outsourced Functions

As indicated by Kakabadse and Kakabadse (2005) organizations should develop a clear vision of areas or functions to outsource or to keep in house to gain maximum benefit from the outsourcing deal. An organization better outsource a function if it is considered as a commodity and develop in house if the function is a strategic service. Lacity et al. recommends keeping in house core capabilities such as leadership, business systems thinking, internal customer relationship building, architecture design, informed buying, contract facilitation, contract monitoring, and supplier development and to outsource noncore capabilities. (Lacity et al., 2008)

Some of the major activities commonly considered for outsourcing are discussed by Pai and Basu (2007) as follows:

**Infrastructure:** Requires priority on operational excellence, capacity and enhanced focus on business processes establishing best practices and ability to efficiently replicate the infrastructure to multiple clients

**Transaction oriented business process:** Involves contracting out back office or transaction oriented functions and requires priority on data security and privacy protection (e.g. payroll outsourcing, accounts processing, billing, claims processing and transaction processing).

**Strategic business process:** This model of business process outsourcing (BPOs) requires specialist experience and expertise for example the recruiting process, but, the true competitive differentiation may in fact come from a focus on customer intimacy and deep understanding of client strategy and culture in order to identify the best candidates (e.g. key human resource functions such as recruiting, operational management, market analysis and research, logistics, etc).

## 2.3 Advantages and Disadvantages of Outsourcing

As there are benefits associated with outsourcing service, there are also draw backs (Chan, 2008). According to Tigist B. (2016), the following are the advantages of Outsourcing.

**Cost savings:** outsourcing can reduce both fixed and recurrent costs.

**Focus on core business:** if specialty areas outside the core business have been monopolizing management attention, outsourcing is a good escape. Outsourcing can allow a client organization to focus on its core business. This is easily observed in outsourcing non-core activities. If for example cleaning service, security service, pest control service, are not core line of business, then outsourcing can be beneficial as it eliminates management difficulties of those involved.

**Access to skills:** specialist skills, tools, technology and independent advice can be gained from outsourcing firms. Client organizations can gain access to the skills they require as and when

they are required, and can call on resources of the supplier for highly specialized skills in unusual situations.

**Access to Technology:** many organizations find keeping up with technical developments in some maintenance services very difficult. Technical decisions are often adversely effected by a lack of knowledge of the full range of technical options available. This can lead to using inappropriate technology and/or inappropriately using technology. Thus outsourcing will be a solution to this problem.

**Greater flexibility:** flexibility in allocating human resources; many organizations find that they bear high fixed costs to cover an unbalanced workload. Maintaining the level of equipment and human resources required to cover workload peaks can leave an organization with redundant resources for a significant proportion of the time. Outsourcing the workload brings considerable cost savings.

**Accountability:** the commercial supplier is bound by contract to provide agreed levels of services. Standardizing service delivery brings greater accountability. A well written contract can clarify responsibilities and sharpen management focus on key project deliverables. The standardization can lead to service quality, and sustainable quality improvement.

Kakabadse (2014) discusses about the disadvantages of outsourcing which is state below.

**Transaction Costs:** Outsourcing involves considerable costs in the administration of tendering and in the ongoing supervision and management of contracts.

**Hidden / Additional Costs:** One potential disadvantageous trade-off is the existence of hidden or additional costs.

**Loss of Control:** selling a strategic resource may end up costing a firm in the long run which is resulted due to transfer of control.

**Human Resource Problems:** if human resource management / supervision team issues are not handled well, any outsourcing venture will likely fail to realize advantages.

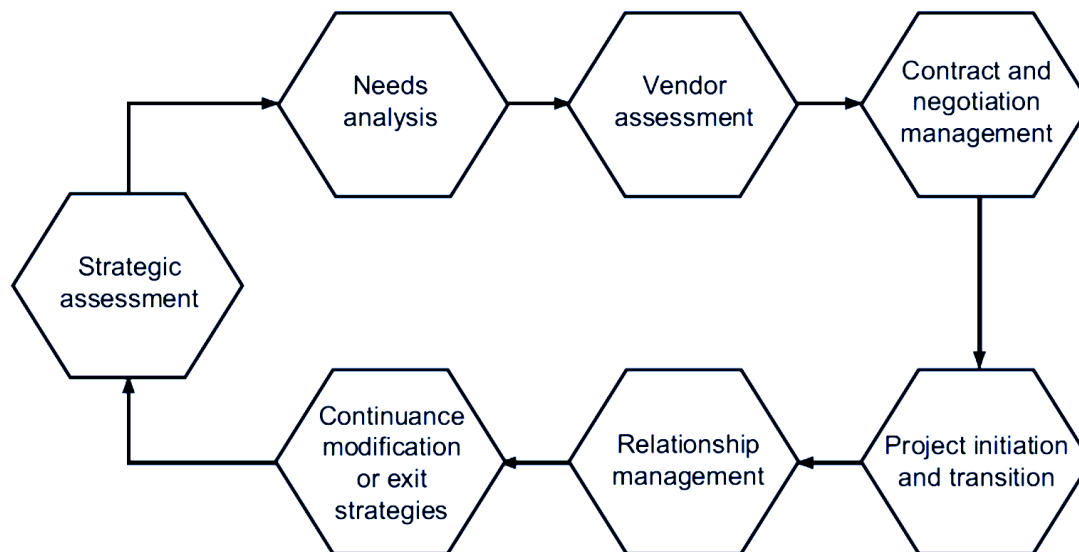
**Irreversibility:** lock-In, vulnerability and dependence, once a process has handed over to an outsider, it will be extremely difficult and costly to bring it back in-house. Lock-in to a long-term contract and to a single supplier can lead users back to a kind of vendor dependency.

**Privacy and confidentiality:** concerns over privacy and confidentiality are often cited as a major barrier to outsourcing functions. The issues of privacy and confidentiality must be covered within the contract, to protect the organization's commercial interest and the interests of customers, contractor, and employees of the organization.

## 2.4 Outsourcing Life Cycle

It is indicated in the literature that outsourcing process follows a kind of life cycled approach. Thus organizations entering into an outsourcing initiative must understand that success depends on a disciplined outsourcing lifecycle management and follow up which requires commitment and skilled resources and executive support (Power et al., 2006).

According to Power et al. (2006) the outsource life cycle should consider: strategy formulation, organizational assessment, planning, requirements definition, and request for proposal (RFP), vendor evaluation and selection, contract formulation, negotiation to comprehensive outsourcing governance. The outsourcing life cycle is thus made up of the following stages:



**Figure 1: outsourcing life cycle, Source: Power et al. (2006)**

## 2.5 Theories on Outsourcing

According to the studies conducted by Yetnayet (2016) theories developed on outsourcing practices have basically three approaches as stated below:

- Resource Dependency Approach

Organizations use their inputs such as money, knowledge, skill, labor, products, and services in order to continue their business activity and profitability. The resource requirement makes companies dependent on the environment hence external factor forcing organizations what they can do and how they can act. For each organization there are resources that have critical importance and uncertainty of provision. For this reason organizations need take various measures to alleviate the problem of shortage in critical resource and uncertainties (Kocel, 2011).

- Transaction cost theory

Transaction cost theory is based on the analysis of transactions between organizations and other parties outside the organization (Williams, 2008). In this approach, there are two options to perform an operation in organizations. It is either to produce within the organization or to buy/supply from outside the organizations. Transaction cost approach mainly emphasis on cost reduction during the trading of produced goods and/or services with individuals or organizations (Kocel, 2011).

- Resource based theory

Resource based theory or resource advantage theory was proposed in the marketing literature in the early 1990's. The resource based theory is a dynamic process theory of competition that has been used in particular with marketing strategy. The resource base view can be defined as the full capabilities of assets, organizational process, resources, the firm attributes information and knowledge collected by a firm can design and implement strategy.

## **2.6 Managing Outsourcing Contracts**

Once an organization has determined that it has interest to outsource, or once it has been directed to do so, a contract is established with the service provider to perform the specified functions at agreed standards and prices over a specific term and duration (Aulich and Hein, 2005). This implies the need for an arrangement or contract between the parties involved in the outsourcing process. The vendor and client sign a contract with a variety of outsourcing arrangements that span from transaction based contracts (usually short term) to partnering arrangements (shared responsibilities and risks) to the use of shared arrangements (e.g. joint ventures). However, different countries have different expectations as to how outsourcers and vendors should act, as well as ways handling disagreements, different styles of management and participation in decision making, and different approaches to teamwork, etc (Siakas and Balstrup, 2006).

Various aspects of managing outsourcing need to be handled well to create a successful working relationship. McNurline and Sprague (2006) have identified the following four ways of managing outsourcing: organizational structure, governance, day to day working, and supplier development. According to them managing outsourcing is different from managing internal staff, since it is a joint effort between parties that may not have the same goals. In organizational structure type of outsourcing management, parties establish layers of joint teams:

- ✓ Top/executive team: to handle decisions and say final word in conflict resolution.
- ✓ Operational team: oversees day to day functioning and having a planned contact of once a week or once a month, but generally they are in charge of the routine.
- ✓ Joint special purpose teams: organized from time to time to solve pressing issues.
- ✓ Committees: to oversee the use of formal change management procedures.
- ✓ Relationship manager(s): to look after the relationship.

In an outsourcing management, the foundation of an outsourcing relationship is laid in contract(s) where the service level agreement (SLA) is a major governance item in the contract.

SLA implies the responsibilities, performance requirements, penalties, bonuses, and needs to be measurable to be of use (McNurlin and Sprague, 2006). They provided the following recommendations on how to manage day to day interactions between two parties:

- ✓ Managing expectations and providing facilitations with an approach to solve problems together
- ✓ Utilizing both formal and informal ways of working as the formal ways often are strict. Increased formality will be there as contract is followed and parties should find ways to reduce this tendency.
- ✓ Integration of the two party staffs requires deliberate actions and monitoring as it does not happen naturally, hence explicit policies or actions are necessary.
- ✓ Managing communication

### **2.6.1 Challenges of outsourcing**

When companies outsource functions/activities successfully they become more flexible, more dynamic and more able to meet the changing demands (Siakas and Balstrup, 2006). However, failure to follow a clear, systematic and effective outsourcing strategy to assess threats, uncertainties can cause major business setbacks (Pai and Basu, 2007). Some of the problems/challenges could be noticed now and then in the course of the implementations process. It is thus common to observe cancelation of outsourcing agreements, renegotiating agreements, or hiring another vendor or go back again to in house services once again after outsource agreement has been signed (Jiang and Qureshi, 2006).

Lacity et al., (2008) grouped the challenges that could face the parties as follows:

- ✓ Lack of alignment of other business activities to the outsourced services: to make outsourcing successful, the client organizations must resolve internal challenges and try to align internal structures with the outsource party. Practically however, in many large organizations the back offices are not truly aligned with the business.
- ✓ Alignment of suppliers' incentives with their clients' needs: Incentives will clearly misaligned because every dollar out of a client's pocket typically goes into the supplier's pocket. Clients are incented to demand more services from the supplier without wanting to pay more. Suppliers are incented to squeeze as much profit from existing contracts or to sell additional services to increase revenues.
- ✓ Lack of knowledge transfer and retention by clients when engaging in large scale outsourcing: this challenge focuses on the knowledge transfer arrangement and the client's knowledge retention.
- ✓ Sustaining smooth relationships for a long term between clients and suppliers: The issue here is not longevity, but sustainability of fresh ideas. Partners in sustainable relationships continually help each other actualize their potential as individuals and as partners.

## **2.6.2 Outsourcing Risks**

Apart from the challenges, organizations have to be aware of the risks and dangers that outsourcing can cause before entering to outsourcing deals. Poor risk assessment will cause major problems and risks could happen at any moment. According to Pai and Basu (2007) outsourcing risks include threats to security, availability and integrity of systems and resources, confidentiality of information, and regulatory fulfillment. They also provided other groups of risks such as overlooking or ignoring of costs because of the difficulty to quantify, the going out of business of the provider, poor delivery of system, contract failures, etc. Jiang and Qureshi (2006) also provide financial loss, damaged company reputations, the dismissal of senior management, and in some cases the destruction of the business itself as risks of outsourcing which is the result of poor strategic planning and poor risk assessment.

Though risk is inherent and inevitable being buried deep in an outsourcing or any other contract (Jiang and Qureshi, 2006) it requires the outsourcer to follow a systematic approach which involves risk assessment. And according to Pai and Basu (2007), this outsourcing risk based assessment considers the following points:

- assessing strategic goals, objectives, and business needs of the organization
- identification of the importance and criticality of the services required by the organization
- careful selection of a service provider
- defining scope of service, with a detailed description of the services and the level to which these services are to be provided
- monitoring and performance reviews and reporting execution quality
- setting contractual obligations and requirements
- setting contingency plans, including availability of alternative vendors, costs and resources plans required to switch vendors
- ongoing assessment of outsourcing arrangements to evaluate consistency with strategic objectives of the organization and
- imposing regulatory requirements and guidance

## **2.6.3 The Contract Document and Contractual Issues**

A contract is defined as: "an agreement made between two or more parties which is enforceable by law to provide something in return for something else from a second party". Contracts can be very simple or they may be very long and complicated legal documents. When a contract is properly set-up it is legally binding upon. The two parties are expected to perform the various obligations they have undertaken, as expressed in a mutually agreed set of contract documents. A contract therefore, is necessary to protect both client and contractor (Emad Elbeltagi 2004).

The contract document is considered as a key to the outsource contract administration and control, it is necessary to ensure that this document provides details on every aspect of the work to be performed or material to be provided and the standards to which it will be performed (Garth, 2008).

Preparation of elements of the specification and service level agreements requires knowledge of both the service area and of contract preparations. If the concerned body does not have staff with the right skills for this stage, it is advisable to obtain a third party specialist advice for documenting the requirement, financial modeling and developing the contract. Viable and effective outsource agreements require an extremely high degree of specificity in every phase of the contract, and be specific enough so as to avoid any misunderstandings. Gottschalk and Solli state outsourcing contract as a legally bounding institutional framework in which each party's rights, duties, and responsibilities are codified and the goals, policies, and strategies underlying the arrangement are specified" (Gottschalk and Solli Saether, 2006).

A good outsourcing contract is the result of a detailed due supervision, assessment and vendor identification, evaluation and selection of vendor organization prior to formalizing. It defines for parties, the current, future, and exit elements of the outsourcing relationship (Power et al., 2006). It is also the document that both organizations will refer to for help in managing the outsourcing relationship throughout the life of the contract.

Thus, the outsourcing contract document must have the following components which clearly describe:

- ✓ the scope and nature of the engagement
- ✓ roles and responsibilities of the vendor/client organization
- ✓ metrics for evaluating the performance of the relationship

Pai and Basu (2007) recommended the following issues to be considered by the outsourcing organization: one of these is the need for careful supervision and legal planning to avoid the common legal pitfalls and conflicts. Other issues like language barriers, potential political instability, and loss of management control; and accountability problems, should also be dealt with (ibid).

Another issue to be dealt with is when an organization considers an international outsourcing as an option is considering legal implications and processes to be aware of the judicial system of the outsourced country if disputes occur (Pai and Basu, 2007).

The other point is about termination of the outsourcing relationship or the exit strategy. There should be a possibility to terminate the negotiation whenever it is necessary. There are different termination conditions for the vendor and the client. The vendor may want to terminate for cases related to payment delays, whereas the client may do so for performance issues. (Pai and Basu, 2007). There is also what is called termination for convenience where the client has the ability to terminate the outsourcing arrangement without having to go through a lengthy process through mutual consensus.

Monitoring and evaluation of the outsourcing process should also be critically considered by the outsourcing organization. It is the responsibility of the outsourced organization to establish a sound outsourcing follow up structure. All these issues have to be included in the contract document.

#### 2.6.4 Service Level Agreements (SLAs)

As stated before, it is mandatory that the client and vendor organizations have a governing principle which will maintain their relationships and measure the performance of each party as per agreement. Pai and Basu (2007) indicated the fact that, the long term relationships is governed by service level agreements (SLA) after completing the process of selecting the service provider and negotiating the terms of agreements through the contract document.

According to Pai and Basu (2007) “...the SLA defines the boundaries of the project in terms of the functions and services that the service provider will give to its client, the volume of work that will be accepted and delivered, and acceptance criteria for responsiveness and the quality of deliverables.” They also state that this agreement is likely to address two main functions to, one is setting out clear obligations to the parties, and the other is allowing the parties to end the relationship smoothly. They also state that in this system, a failure to achieve a service level would cause a liability. Hence, it is necessary to have a well-defined and crafted SLA that correctly sets expectations for both sides of the relationship and provides targets for accurately measuring performance to those objectives (ibid).

Furthermore the use of service levels structures developed to improve vendor performance and client satisfaction in outsourcing transactions can help keep the parties’ interests aligned and the service provider to provide high quality and timely services (ibid).

The SLA should be clearly stated, easy to understand, easy to measure and based on the outsourcers’ thorough benchmarking analysis (Power et al., 2006). To this point Lacity et al. (2008) added that SLAs typically define the “services provided, the metrics used to evaluate the services, as well as reporting and governance”. A common mistake made by organizations regarding SLAs is to have ambiguous and incoherent SLAs that cannot be measured objectively which makes them difficult to implement (ibid). Metrics is an important part of the SLAs and (Pai and Basu, 2007) there are many possible metrics from a service level agreement system arrangement standpoint. They grouped them into the following four major categories:

- i. Volume of work

Volume of work is typically the key sizing determinant of an outsourcing project, specifying the exact level of effort to be provided by the service provider within the scope of the project. Any effort expended outside of this scope will usually be separately charged to the company, or will require renegotiation of the terms of the SLA. Volume of work metrics should also be specified for every major deliverable cited in the SLA.

- ii. Quality of work

Quality metrics, the most diverse of all of the SLA metrics, cover a wide range of work products, deliverables and requirements and seek to measure the conformance of those items to certain specifications or standards. When deliverables fail to meet the acceptance criteria in the specifications or standards, quality problems arise. These metrics for quality include:

- Standards compliance
  - Technical quality
  - Service availability
  - Service satisfaction
- iii. Responsiveness

Responsiveness metrics is the measure of the amount of time that it takes for an outsourcer to handle a client request. Metrics include time to market and time to implement. These metrics measure the elapsed time from the original receipt of a request until the time when it is completely resolved.

- iv. Efficiency

Efficiency metrics measure the engagement's effectiveness at providing reliable services at a reasonable cost.

## 2.7 Elements of outsourcing success

It is imperative that any organization who has established outsourcing relationship gives due attention to be successful while success is attributed to different factors. Kni (2007) strongly recommend the importance to have readily available, capable, and experienced outsourcing vendors in the market for outsourcing to be successful. Kakabadse and Kakabadse (2005) also indicated in their study that success is more likely to be achieved for those organizations that have the competence to:

- Rearrange ways of working
- Integrate current processes and activities around already outsourced activities,
- Facilitate ongoing relations
- Build long lasting relationships with their suppliers, and
- Effectively apply total quality management

According to Pai and Basu (2007) the keys to success would depend on best practices guidelines given below in order to reap the benefits of an outsourcing effort:

***Strategic planning and assessment:*** Outline a long term strategy for outsourcing to avoid long learning curves and dependencies.

***Careful selection of outsource contractor:*** Review the service provider's core business competencies, credibility, dependability and sustainability which are essential in maximizing returns from an outsource initiative.

***Risk mitigation:*** Having a well-considered risk management document that measures the probability of each type of risk and the impact on the enterprise will be critical in determining the ultimate success of the offshore initiative. The risk management framework will also define which risks need to be managed, which can be transferred, and which can be simply ignored.

**Post contract review:** Streamline a strong governance structure, seeded with location expertise for quality of service assessment and risk mitigation. Having a well-defined strategic post contract monitoring model is imperative in developing a “proactive” monitoring and management process.

**Knowledge acquisition:** Despite the contract, the contractor could fail to manage the critical risks in a crisis. There is a need for crisis and contingency management plan to face undesirable outcome. Changes to the business continuity plans and invocation procedures need to be communicated properly if operational integrity is to be upheld for a stable and secure partnership with the contractor.

**Legal compliance issues:** Effective SLAs are extremely important to assure effective outsourcing engagements. The metrics used to measure and manage performance of SLAs commitments are the heart of a successful agreement and are a critical long term success factor. Lack of experience in the use and implementation of performance metrics causes problems for many organizations as they attempt to formulate their SLA strategies and set the metrics needed to support those strategies.

**Conflict resolution:** Conflict resolution and contract negotiation is the process through which two or more parties arrive at mutually acceptable terms and conditions of exchange, for items they own or control. Conflict arises between two parties when there is a deadlock between them over the aforesaid terms and resolution.

## **2.8 Performance Measurement and Outsourcing**

Neely et al. (1995) defines performance measurement as “the process of quantifying action, where measurement is the process of quantification and action leads to performance, in term of efficiency and effectiveness”. In other words, it helps an organization assess the performance of its processes regarding effectiveness and efficiency, and is credited as the most important tool to support governance and control (Weimer et al. 2009).

Literature regarding performance measurement mostly focus on producing data and converting this information into actions to improve performance and thereby delivers a more holistic concept. Neely (2005) pointed out in his review that effective performance evaluation provides an indication of how a performance management system should be designed to assess the supplier effectively.

As indicated by Jiang (2006), outsourcing does normally lead to a firm’s cost-efficiency, but limited improvements to productivity and profitability. Power (2004) highlighted that these are only obtained if firm’s devise, deploy and maintain good outsourcing relationships. Power highlighted traps to avoid including lack of top management commitment, lack of planning, poor communication, ignoring risks, not using good internal resources, and rushing things through.

The most important elements to include in the outsourcing contract are specifications for service levels and quality, to encourage vendor performance and discourage underperformance (Platz and Temponi 2007), including guidelines that explain the measures taken in case of poor

performance by the supplier (Gay and Essinger 2000). Choosing appropriate indicators in designing performance evaluation process is necessary to achieve desired outcomes (Thum, 2010). Tyagi & Gupta (2008) suggest that besides quantitative measuring method, qualitative method should be used to measure the intangibility of services such as production development, employee skills and customer satisfaction. They assert that service measurement will require someone to take the individual measurements and combine them to provide a view of the true customer experience.

## **KPIs**

A key performance indicator (KPI) is a metric that is used to help manage a service, process, plan, project or other activity. KPI are used to measure the achievement of target service delivery. Many metrics may be measured, but only the most important of these are defined as key performance indicators and used to actively manage and report on the process or activity. They should be selected to ensure that efficiency; effectiveness and cost effectiveness are all managed (Brewster, 2012).

According to Pollock (2009), there are three fundamentals of KPIs required in the establishing KPIs process. Firstly, the organization's goal and KPIs should have a tight linkage. for example when we consider the case study company, one of its goal is provide customer fast service delivery by ensuring train availability to achieve customer satisfaction; thus, it uses KPIs which reflect the efficiency of services delivered. It has also another goal of improving local staff knowledge and skills, thus it sets KPIs related to Human Capital development.

KPIs used must also be quantitative and quantifiable. The service performance is difficult to measure in nature as there are many intangible factors involved, especially in rail transit industry where service performance evaluation requires various invisible components from service design, service operations and service transition in order to arrange a perfect measurement platform, as the result, relevant KPIs must be set which can be quantified in order to avoid subjective in evaluation. By translating the performance into numeric value and percentage, the management can easily analyzing the situation of their performance.

Finally, the organization's success and KPIs must be linked together. Pollock (2009) also states that "simply tracking data over time and reporting it back to management is not useful if the data itself is not meaningful to the measure of success." In other words, the KPIs must be associated with critical success factors.

## **Performance in Outsourcing Projects**

Gottschalk and Solli-Saether (2005) describe stakeholder management as an important factor for success in outsourcing, after the correct selection of the process or service to be outsourced. They suggest that the relationship between buyer and vendor has to be managed efficiently and effectively to secure the success of the project. Weimer et al. (2009) goes further and constitutes that the success of an outsourcing project solely depends on the professionalism in managing the outsourcing supplier's performance.

Pai and Basu (2007) consider the selection of appropriate performance metrics a critical success factor for the outsourcing project and which require regular review; also classified performance metrics into four categories, namely: volume of work, quality of work, responsiveness and efficiency.

Weimer et al. (2009) pointed towards the most vital information need for organizations engaging in outsourcing as being the areas of service reporting and performance management. As such, organizations have to develop measurement and reporting tools that produce relevant information on service levels, quality and customer satisfaction. Only if this information can be generated, can the outsourcing project become a success story (Weimer, et al. 2009).

The Balanced Scorecard (BSC) is commonly used performance measurement approach in outsource projects providing executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures (Kaplan and Norton 1996). BSC uses the category of finances, customers, processes, and innovation and growth to keep track of the execution of activities/actions by the department business functions and to monitor the consequences arising from these actions (Kaplan and Norton 1996). The data gained has to be used to find solutions to problems and by that, improve the supply process. More than just a measurement system, the BSC is a management system that channels core competencies and emerging technologies toward strategic goals and business objectives (Kaplan and Norton 1996). The outsource management contract in the case study also puts BSC as a model for performance management.

## **2.9 Review of previous Studies and Research Gap**

A lot of studies have been conducted on outsourcing of non-core activities of a firm. Outsourced services such as information technology provision, distribution and human resource (Gilly et al 2004; Ngwengama and Tiwana 2008). In the contrary, outsourcing of core business activities has been given little attention in the literature. Even though studies have been done on extensively on outsourcing little empirical research exists on the performance assessment or evaluation of the outsourcing contract implementation. There are also hardly any available studies in the subject of management outsource contracting. The little research made on the performance of a firm due to outsourcing is not conclusive.

Reviewed literature also point that the outsourcing activity may bring with it significant risks that must be recognized and managed. In outsourcing the company is relying on someone else to run the business function. Tigist B. (2016) points out that if outsourcing is not managed properly companies can damage their customers, business and work ethics. Some of the risks involved are inability to deliver the service on time, quality degradation on the product or service provided, the outsourcing transition period taking too long creating a delay on schedules and budget. Some scholars argue that outsourcing can also have a risk of exposing confidential information including business strategies to a third party.

From the literature that has been reviewed, there is a significant knowledge gap about the issue of management contract outsourcing and performance assessments. Many researchers have drawn attention on the decision for outsource and outsourcing impacts. Therefore, there is a need

to conduct more studies on the gap identified so as to fill the gap and generate more knowledge, ideas, views and opinions on the research gap.

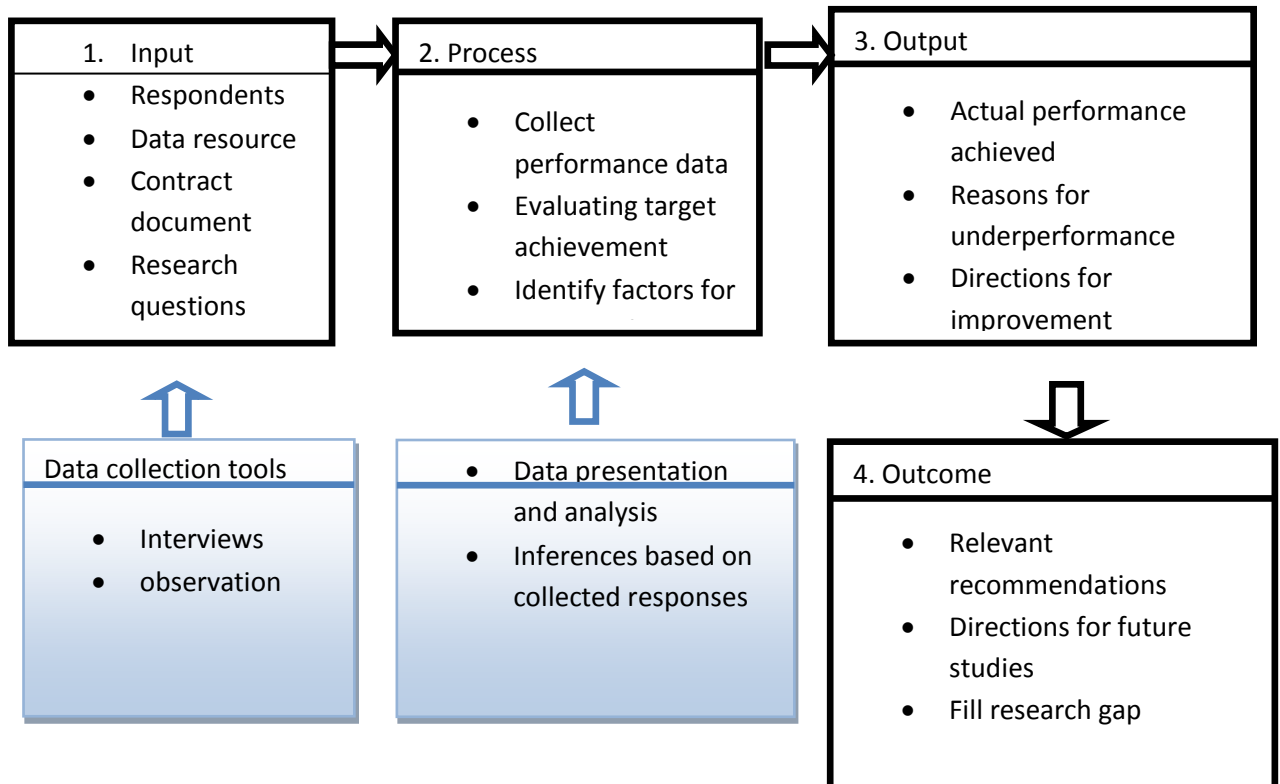
The researcher also observed that the practice of outsource contracts in businesses is relatively new in the country, especially the practice of outsourcing core organizational functions. As there is a growing need for development and international relations, it is evident that such approaches are necessary to import technologies and systems. Thus, it is imperative to study how the management contractor is fulfilling its contract obligations in relation to customer service and knowledge transfer based on the targets set in the contract.

## 2.10 The Experience of Management Outsourcing in Ethiopia

To the knowledge of the researcher, there is has not been research work made on operations and maintenance management outsourcing contract in Ethiopia. But this does not necessarily mean that there are no outsourcing practices in Ethiopia. There are few firms outsourcing non-core activities to third parties in Ethiopia. Many organizations outsource janitorial and maintenance services to a service provider. Outsourcing service for security officers and drivers is also practiced in many organizations. The practice of outsourcing is showing growth and the researcher believes that in the near future there will be several organizations willing to benefit from outsourcing contracts.

## 2.11 Conceptual Framework

The following conceptual framework lays a foundation to study the performance of the practices of the management contractor in Addis Ababa Light Rail Transit. It is expected that the findings of this study will lay a foundation for other similar studies in future; also it shows exiting challenges to be taken into consideration for similar future projects.



## Chapter Three

### 3 Research Methodology

The objective of this study is to assess the performance of management contractor in delivering selected deliverables by having a detailed understanding of practices and experience in outsource management contract with the associated problems/challenges, hence it employed a qualitative methodology as a general approach. As pointed by Hancox and Hackney (2000), when the main concern of a study is not to generate statistically significant findings which proved or disproved causal relationships rather to get a better understanding, qualitative research can be used as an approach. Such type of method can be used when the emphasis of the study is on the discovery and understanding of the issue for analysis (Kini, 2007). As there is no or no research on operation and maintenance outsourcing done to the knowledge of the researcher in Ethiopia and little is known about the subject, qualitative research approach is a better way to undertake.

#### 3.1 Data collection methods and techniques

The analysis of documents is also a commonly used method in case study research (Hancock and Algozzine, 2006; Flick, 2002) and gathering data by studying documents follows the same line of thinking as interviewing (Stake, 1995). Thus document analysis is one component employed for data collection in this study to substantiate the interview. Efforts were done to access different documents and the contract document.

A review of literature was done to gain knowledge and understanding on different concepts of outsourcing; motivations or drivers, functions to outsource, different issues to be considered during vendor selection and monitoring, relationships management during outsourcing, problems/challenge, and errors that could happen during outsourcing, and outsourcing management in general.

Case study approach was used for this research since the study employs a particular single case to understand and assess points important for the study. A case study approach is particularly appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in a better depth within a limited scenario (Hancock R. and Algozzine B., 2006).

Both descriptive and explanatory study design using qualitative method was used to analyze for data collected from the respondents. The reason behind using descriptive study design is because the researcher is interested to describe the existing situation of the outsource contract performance assessment in achieving deliverables. The study also used explanatory study design, to explain and understand what is practically happening in the real scenario.

Qualitative research mainly works with two sorts of data: verbal data collected through interviews and visual data result from applying various observational methods including documents (Flick, 2002). Thus, being qualitative research this study also use interview and document analysis as method of data collection.

### 3.1.1 Data Collection through In-depth Interviews

An in-depth interview is a qualitative research technique conducted in a form of conversation/discussion between a researcher and respondents for the purpose of exploring issues in great details (Babbie, 2010). The interviewer encourages participants to freely discuss their feelings and opinions, and probes on questions to gain further insight and depth to the responses. This type of interview is often unstructured or semi-structured. Therefore it permits the interviewer to encourage participants to talk at length about the study topic; hence it increases insight into people's thoughts, feelings, and behaviors.

The study employed semi structured interview which is well suited for qualitative research and help the researcher to get rich information (Hancock et al., 2006; Darlington et al., 2002). It is also the dominant types of data collection methodology for case studies (Jiang and Qureshi, 2006). Follow up questions will also used as these questions are intended to ensure that participants provide the complete set of information (Mack et al., 2005).

According to Schindler, P.S. (2001) with semi-structured interviews the interviewer will be guided by a set of questions and shall attempt to establish rapport with the respondent to produce rich data. The advantage of a semi-structured interview is the flexibility in obtaining relevant information. It also provides the opportunity to probe answers, to build on the interviewees responses and to address other problems in the study.

The researcher reviewed literatures when preparing the interview questions which will add on the validity of the results as the items are already tested in other researches. Interviews were made with three personnel; two of them from the AALRTS top management both from client and contractor side. The other interview was made with the contract administration team leader and selected division managers/directors.

Interview questions arranged for the general managers and the contract administration team leader focus on the background and initiation of the outsource management project, major drivers for management outsourcing, contractor selection, the relationships management and communication between contractor and client, management outsourcing evaluation methodology used, contracts evaluation methodology used, risk assessment, challenges etc. It also includes contract monitoring and evaluation with a final view of the respondents.

These interviewees are selected because they were assumed to be involved in the process of outsourcing and are also responsible to the supervision and management of the process as per agreed terms and conditions. In addition they are selected due to their availability and are believed to have the best information to address the research questions by the researcher. Key interview questions are included in Appendices. Each interview made lasted for two hours. In cases where there was a need for additional data follow up interviews were made.

Interview questions arranged for the division managers/directors focus on the reality of the implementation of the contract and performance issues like, the programs and activities in the training and technology transfer. Interview to be conducted with the two managing staff of the customer service and ticketing division shall focus on specific cases related with customer

service and feedback. Last but not least will be interviews with the team leader of contract administration department of ERC focusing on management of contractual issues and SLAs, challenges when implementing both from the client and contractor side.

### **3.1.2 Data Collection through Documents Review**

A review of literature is done to gain knowledge and understanding on different concepts of management outsourcing contracts; motivations to outsource, tasks to outsource, issues to be considered during contractor selection and monitoring, relationships management during outsourcing, problems/challenge, and mistakes that could be done during outsourcing, and benefits of outsourcing management in general.

In this study the documents review is used as one source of secondary data. Several documents like contract agreement, feasibility assessment reports, and internal operation data records, research studies in the subject matter, books ... shall be reviewed since it is impossible to review all of them. The purpose is to generate concepts and theoretical knowledge available and to back up the data collected through other methods in the study.

The researcher faced difficulties in accessing contract agreement documents due to confidentiality matters by the organization; however, the researcher shall relentlessly exert efforts to get important documents with negotiations with the relevant departments including the contract administration department of ERC.

### **3.1.3 Data Collection through Observation**

The study used observation as method of data collection. This will be in the form of non-participant or independent observation. In this method research observed service activities like customer service, maintenance and emergency response operating procedures, safety considerations, and training and support activities.

## **3.2 Target Population and Sampling**

The major project stakeholders who actively participated throughout the outsource contract implementation are the very population of the study. As far as sampling technique is concerned the researcher used purposive selection. The researcher deployed the knowledge, skills and judgments to determine the sample size of key executive officers among the major stakeholders, namely, the client, the contractor, the supervisor, and selected departments. The respondents were one from each category of stakeholders as the representativeness of each respondent was granted by non-random sampling method.

The research was conducted at Addis Ababa Light Rail Transit at Kality main depot. The target population for observations was the ticketing and sales, maintenance center and transport department. The candidates for the interviews were top management officials from both contractor and local side. The other key respondent for the interview comprised of personnel from contract administration department of Ethiopian Railways Corporation, ERC.

The researcher used purposive sampling in selecting respondents for the interviews considering relevance and availability of data for the study. Accordingly, the top management comprising of the general manager on behalf of the contractor and the general manager of AALRT; team leader of operation contract administration from ERC; managing officials from training coordination and customer service. Totally there are 7 sample respondents for the interviews. The sample contained all the necessary stakeholders for the outsource contract to keep its reliability.

The researcher limited the scope to the light Addis Ababa rail way as Addis Ababa Light Rail Transit Service is the first functional organization of Ethiopian Railways Corporation to engage management outsource contract. Other justification; the project is 100% complete and currently operational, the data availability factor and the time constraint to complete the project work limited the researcher.

### **3.3 Methods of Data Analysis and Interpretation**

Data analysis and interpretation is one of the core points in a study and shall be handled as follows. At the time of interview a note/record of each question was be taken from the interview. Latter the data was collected and coded into a meaningful form through sorting, coding, categorizing and making sense of the responses using logical reasoning and inferences. The researcher took proper care to avoid biases and wrong generalizations when analyzing those data. The data was organized according to the objectives and the research questions of the study. Whenever necessary, additional interview was arranged to collect the required information from the interviewees. Then cross references and comparisons of the analysis of the responses with the available researches and literature was considered for analysis to assess the performance of the management contract and the outsourcing deal.

### **3.4 Ethical considerations**

The researcher ensures the quality and integrity of this project work. The respondents pursued consent for participation with full awareness of what it is. The confidentiality and anonymity of the voluntary respondents was also guaranteed. The researcher oriented the respondents prior to conducting the surveys. This independent and impartial project work considered not to cause harm to respondents in what so ever way. Accordingly, the researcher exerted maximum efforts to consider all the ethical perspectives.

## **Chapter Four**

### **4 Data Presentation and Analysis**

#### **4.1 Introduction**

In this chapter data collected from different sources is presented for discussion and analysis. Before presenting the data, the researcher believes it is important to briefly introduce the steps taken in the process of data collection. As indicated in the research methodology section, the researcher planned to collect primary data through interviews and observation and secondary data through document reviews.

The researcher conducted in depth interviews with both the contractor and the client side, with the client side including the contract administration of ERC. Purposive selection of respondents was done to collect relevant data corresponding to the contract and its implementation using the interview. There were four groups of respondents. One is the executive group consisting of the contractor side general manager and that of the local general manager. The second group consists of directors from maintenance and transportation departments. The third group comprise of coordinators, managers and supervisors and coordinators responsible for training and development, and customer service both from the contractor and client side. The last group is the group of the team leader of operation contract administration. By incorporating the above of respondents, the researcher tried to make a reliable data collection for the primary source. For the secondary source, the main input came from documents related with the contract. Other documents were standards provided by the contractor which helped to prepare the interview questions and assessment during the observation.

Document analysis was also another methodology planned to collect data concerning the contract and operation status to gain insights to evaluate the performance of the operation process. From those documents the contract agreement document and the request for proposal document were the major ones. The researcher could not access the employee requirement, term of reference (TOR) and general and special conditions of contract. However, partial access to review the contract document was granted with the help of the contract administration department for a limited time. The confidentiality regulation of the outsource company and ERC prohibits adequate access of contractual documents for academic or other third party purposes.

#### **4.2 Outsourcing Background**

The following data are gathered from the interviews with the general manager on behalf of the management contractor, the contract administration team leader of ERC and document review.

A joint venture was established by Shenzhen Metro Group Co., Ltd. (SZMC) and China Railway Group Limited (CREC) for the bid of Management Services Contract for Addis Ababa Light Rail System (AALRT) operation and maintenance. The name of the joint venture is CREC-SZMC Joint Venture. Once awarded the management contract, both parties of the joint venture formed an operation company to operate and maintain AALRT. Introduction of the two organizations is given below:

## **CREC**

China Railway Group Limited (CREC) has participated in the construction of both domestic and international railway line constructions. It constructed, rebuilt and extended a total length exceeding 64,000 kilometers accounting for more than two third of total operating length of railway lines constructed in China. In addition, CREC engaged in overseas markets since 1950s and undertaken design and construction for more than 550 overseas projects including railways, expressways, highways, bridge, tunnel, building construction, dredging, airport and municipal works in more than 60 countries globally.

## **SZMC**

Founded on July 31, 1998, Shenzhen Metro Group Co., Ltd (SZMC) is China's first class operator in rail transit industry. It mainly engages in the construction, operation, development and comprehensive utilization of urban rail transit projects. It armored more than 8300 operational personnel who are capable in the areas of train operation, passenger transport, rolling stock maintenance, signaling and communication and so on. The company's operation team works in conformity with ISO9001\ISO14001\OHSAS18001 management system. It runs the Shenzhen city metro service which has operation mileage exceeding 158km with more than 6 lines equipped with 114 stations and 7 rolling stock yards (depots). The daily passenger traffic volume exceeds 2,400,000 person times accounting for 27% of the city's daily public transit volume.

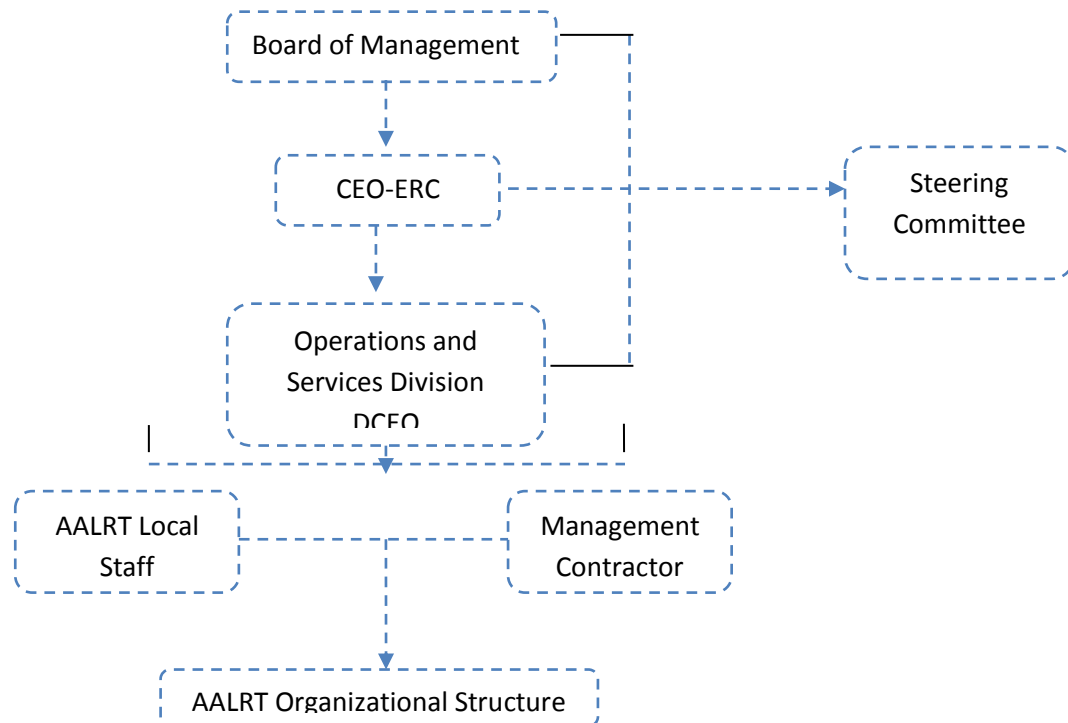
### **4.2.1 Brief Description of Addis Ababa Light Rail Transit- AALRT**

The government of Ethiopia in commitment to realize the millennium development goals towards achieving middle level economy in 2020 planned to develop the infrastructure including transport sector. It established the Ethiopian Railways Corporation (ERC) to implement its mission in the railway transport operation and networking industry by regulation number 141/2007 of the council of ministers of FDRE.

Accordingly, the government planned the Addis Ababa light Rail Transit (AALRT) project for Addis Ababa city which is the capital of Ethiopia and the African Union (AU) as well. The project has two fleet corridors namely NS line (for north south) and EW line (for east west). The operation of AALRT was planned to be in January 2015, but due to several reasons and incompleteness of facilities for the operation, it was finally arranged to commence in September 2015. This phase of AALRT has a total length of 31km with EW line 17.01km, NS line 16.69km and a 2.6km common section with a total of 39 stations and 41 rolling stock vehicles. The project was anticipated to greatly improve the traffic conditions and boost urban development.

After consultation with the ministry of transport and the government, ERC decided to outsource the management of the company for a fixed period of time and to train the local staff with the necessary intellectual and psychological skills to start and maintain the operation of AALRTS. Accordingly an international request was forwarded to SZMC and CREC to take charge of the operation and management of AALRTS in 2014.

The following diagram depicts the line of command and the organizational structure during the initiation of the outsource management contract. The steering committee had responsibilities to coordinate relations with external stakeholders and government offices to facilitate the smooth start and operation of AALRT.



**Figure 2: Organizational Structure of ERC and Line of Command for the Management Contract**

#### 4.2.2 Objectives of the Management Contract

According to the general objective of the management contract, the contracting company involved in the acceptance and commissioning works of equipments in advance of operation. It then took control over the operation and maintenance management of AALRT under the oversight of ERC for a limited period of time.

In the operation period, the contract is targeted to attain predetermined target values and provide safe and quality service for AALRT. The establishment of train operation organization system, passenger traffic organization system, maintenance system, safety system and training system are set up to improve and sustain the overall management of AALRT. For the period of 41 months, the operation company contracted to provide technical and managerial trainings to the local staff recruited by ERC to independently operate AALRT after the end of the contract.

#### 4.2.3 Service targets

The management contractor prepared a framework to manage operations and maintenance services. It started by developing a strategic business plan for a period of five years. This plan

takes into account the operation demands of AALRT. The plan focused on safe, reliable and quality operation service by establishing professional rail transit operation systems including train operation, passenger traffic organization, maintenance, safety and overall management of personnel, information, finance and training and development. It also set target cumulative revenue to be collected in the period of the outsource contract amounting about 353 million ¥ from sales of ticket at the end of 2018.

In terms of operation, the plan targeted train arrival punctuality of 90%, trip cancellation percentages to be no more than 10% and the availability of trains to be 95% assuming a year by year improvement until the end of the fifth year.

With regard to safety, according to the data gathered, the weighted number of accidents is set to be no more than 30 in the first year, in the second year 25, 20 in the third year. In the fourth and fifth year it was set to be 20 and 15 respectively. According to the data gathered, the safety targets with regard to accident have been achieved starting from the first year with excellent performance. There was no major accident causing casualties so far. In its three year operation so far, there were three accidents, which one of them had human loss.

For the training and development, the plan set a period of three years in which the contractor stresses on transferring technical training to local staff anticipating a professional team of AALRT operation management staff at the third year. The set forward strategy is a periodic replacement of roles played by the management contractor personnel by the local staff. In the first year the ratio of the management contractor staff to the local staff in the front line management is 69:31, respectively. In the second year it is planned to be 45:54 and in the third year 20:80 respectively. In the fourth year, except for the executive technical support personnel, all the operation activity shall be run by Ethiopian personnel.

#### 4.2.4 5 year Strategic targets for the deliverables in the management contract

The following table summarizes the strategic plans to be achieved within five years by the management contractor.

Item	Description	Year 1	Year 2	Year 3	Year 4	Year 5
Safety target	Weight number of accident	30 people	25	20	15	10
Operation benefit	Revenue	6.8Mill USD	10.5	12	13.3	14.6
Operation service	Train Punctuality	90%	90%	93%	93%	95%
	Trip cancellation	<=10%	<=10%	<=10%	<=5%	<=5%
	Train availability	95%	95%	95%	97.5%	97.5%

**Table 1: Strategic Targets for the Deliverables (Source data gathered through interview)**

#### 4.2.5 Key Performance Indicators (KPIs)

Balanced Score Card (BSC) is used to determine the KPIs to measure values and time of achievement. The following table summarizes key performance indicators (KPIs) targeted to be achieved within five years by the management contractor.

Item	Key Performance Indicator (KPI)	Unit	Target Value				
			Year 1	Year 2	Year 3	Year 4	Year 5
Finance	Average ticket price	USD	.33	.33	.33	.33	.33
Customer	Train delays >5min	%	10	8	6	5	5
Internal operation	Trip cancellation in rush hours	%	10	8	6	5	5
	Train availability	%	95	95	95	97.5	97.5
	Weighted number of accident	Number of people	30	25	20	15	10
Learning and Growth	Average training days available	Day	20	10	8	6	6

**Table 2: Key Performance Indicators (Source data gathered through interview)**

The data collected through the interview indicates that the key performance indicators regarding train availability show deviations from the targets. There are 41 rolling stocks imported for AALRT operation. The target for train availability was set considering this figure. However, practically, due to handover issues and functionality problems, 4 of the rolling stock are not operational. The following table summarizes the actual vs. target availability of train. According to the data analysis, there are fluctuations in train availability and inability to reach the target set in the contract. The respondents say that issues related with rolling stock spare parts availability and prolonged customs office procedures play as factors in affecting rolling stock availability.

Availability Target Couple and single trains of both line 2015-2018					
year	EW line		NS line		Total
	Single	Couple	Single	Couple	
Year 1	9.5	4.75	90.25	4.75	29.45
Year 2	9.5	4.75	90.25	4.75	29.45
Year 3	9.5	4.75	90.25	4.75	29.45
Year 4	9.75	4.875	10.725	4.875	30.225
Actual Available Average Couple and single trains of both line 2015-2018					
year	EW line		NS line		Total
	Single	Couple	Single	Couple	
2015	2.71	1.28	8.34	2.26	11
2016	4.64	3.35	5.4	2.56	15.99
2017	3.08	4.91	3.71	4.03	24.6
2018	2.39	5.62	6.31	1.69	16.07

**Table 3: Key Train Availability Data (Source data gathered through interview)**

When considering trip cancellation and punctuality, it was discussed in the interviews that the major issue is with regard to power interruptions, technical failures on the rolling stock and passenger in and out delays. According to the data gathered, the following table summarizes trip cancellation rates for the last three years starting from September 2015. The punctuality rate shows development over the past three years. The respondents claim that the issue of vehicle accident collision is also basic factor in affecting trips and punctuality rates.

Item	Year				
		2015	2016	2017	2018
Trip cancellation	Target %	10	8	6	5
	Actual %	13.2	9.76	5.66	5.89
Train Punctuality	Target %	90	90	93	95
	Actual %	83.5	90	90	93.8

### 4.3 The interview Process

As part of the data collection for the qualitative research, a personal interview was conducted with selected representative from both the management contractor and the local staff. During the selection of the respondents effort was made to include from different divisions and years of service. Purposeful selection is used to ensure the representativeness and relevance for the study. The respondents from the side of the management contractor have work experience ranging from 7 to 15 years at the contractor organization. The respondents in the client side have work experiences ranging from 4 to 9 years of service in different organizations. All of the respondents are aware of the management contract since the operation of AALRTS started after signing the management contract. The responses from the client side reveal that the outsource decision is correct and the best available option to start operating rail transit. They agreed that such a new project to the country could have not been initiated with the current capacity of the organization or the country in general where there is no prior experience.

#### 4.3.1 Profile of interview respondents

No.	Job Title	No.	Sex	Service Years
1	GM on behalf of MC	1	M	>24 years
2	Local GM of AALRT	1	M	>8 years
3	Team Leader Contract Administration	1	M	>7 years
4	Director of Maintenance of MC	1	M	>15 years
5	Training and development Coordinator for MC	1	F	>10 years
6	Assistant Training Coordinator	1	F	>3 years
7	Customer Service Manager	0	-	-

**Table 4: Profile of Interview Respondents**

## **4.3.2 Interview Narratives**

### **4.3.2.1 Interview with the General Manager on behalf of the Management Contractor**

The interview with the general manager on behalf of the management contractor took about one and half hour. The respondent showed welcoming hospitality. At times the interview was interrupted due to office matters, however, this helped the researcher to revise and take notes on the responses.

#### **Part Two Outsourcing Background**

After receiving international bid request from ERC, SZMC arranged a team of experts from different departments including but not limited to:

- Law and contract experts
- Operation management experts
- Language and technical translators
- Maintenance management experts

to go through the preliminary process of contract preparation and risk assessment to initiate the outsource management contract.

Previous experience of operation and management outsource- Several domestic experiences and also overseas like for example in Israel, Vietnam, Egypt and Nigeria.

- a) The team of experts and legal experts stated before were responsible for preparing the contract document
- b) No consulting third party for this contract
- c) The contract was signed on Dec 2 2014 for 41 months of operation
- d) Risk assessment was done in the preliminary works. However, he stated that the realities seen have seen to be very different than expected. For example, the issue of severe shortage of foreign currency
- e) The contract contains performance evaluation terms, however, the client ERC was not willing to implement them

#### **Part three- Contract and SLAs**

Because of organizational confidentiality issues, questions in this part are not responded

#### **Part four- Performance Monitoring and Evaluation**

The working relationship between the local side and the contractor side is generally smooth and harmonized. There are problems related with communication which are handled by the help of technical and linguistic translators. There is however shortage of translators. ERC treats the local staff as trainers or students and so as the management contractor. However, from time to time, the role of the local staff is increasing with their involvement in decision making also.

- a) No dispute with the client so far for the question about dispute resolution

### **Part five- Challenges in the implementation of the outsource management contract**

The major challenge faced by the management contractor according to the general manager of the outsource company is related with finance. So far the contractor is paid no more than 25% of the contract fund. The contract states the periodic payment of money in quarter, half year and annual. It has been 39 months in service but only a quarter of the money is paid in foreign currency. The interviewer asked for securing the fund during contract initiation, however, the response was that the contractor did not consider that. Another thing is that the contractor made several discussions with ERC about the payment, however, only oral promises and “be patient” is the responses so far. Due to this the contractor is even paying salaries of its staff from Shenzhen Metros pocket. The respondent said that the contractor believes the friendship between the two countries is what is keeping the contractor with all the sacrifices. It is the Chinese corporation and not any other international managing contractor who can respond to such challenge to keep the friendship between the two countries exemplary to other nations also.

The other challenge is related to the tax system. As mentioned before, only a quarter of the payment is paid to the contractor. However, the government tax authority is not considering that and demanding tax to be paid for the period finished so far. The respondent believes that the tax system is not favorable to attract foreign investment. The other challenge related to taxation is that the tax authority has no standards to levy tax; it is done with random or assumptive payment order. The AALRTS is the first light rail in the country, a taxation system which is in line with the international customs is mandatory for international management contractors like SZMC to handle such contracts effectively. The current system in the tax authority is said to take away the confidence of foreign investment and technology transfer like the management contract in AALRT and also in other industries. The respondent raised an ancient Chinese proverb “kill the goose to take all the gold eggs; and you will end poor”. He said that 40 years ago China opened its doors for international market with favorable policies and Ethiopia should take that as an example to develop its nation. Otherwise it will be difficult to attract foreign investment (direct or indirect).

The other challenge for the contractor is the degree of involvement of ERC. The management contractor prefers a degree of autonomy to run the operation. The management contract gives authority for the contractor to handle the human resource management, finance and administration and procurement. In reality however, ERC keeps the mandate of decisions for those tasks. The management contractor believes that effective operation of rail transport requires key elements like the autonomous management of human resource, finance and assets.

The contract depicts standards to be provided by the contractor and the client to accept and realize those standards. In reality, the client accepted operation and maintenance standards and left others. For example employee recruitment and salary should have been decided and handled by the contractor; however, actually, ERC is the decision maker for this issue. Because of this, the management contractor could not fill vacant posts in the management. Another example was forwarded by the respondent. He said that it is an international custom in transport companies to arrange commissions or allowances for ticket control and inspection from the revenue generated

by catching those who do not pay the fare. The management contractor presented this proposal to ERC; however, ERC did not accept the proposal. Due to this ticket control and inspection work is not efficient. The client however complains on the management contractor of fare evasion and customer service problems on the other hand.

For the challenge related to recruitment, the contractor planned to reduce the waiting time of passengers and thus decided to introduce additional shift schedule. This was not effective as the number of train conductors was not enough to handle the extra shift. Recruitment in AALRT demands acceptance from ERC and usually takes a long time.

Challenges related to procurement are also similar. As stated before, the contractor prepared procurement regulation according to the contract. However, AALRT is using the procurement regulation of ERC which does not take into account the demands of rail operation environment.

The last two challenges are related with organizational culture. The respondent believes that the client organization is not well prepared for the contract. Standards in the contract could not be functional due to the fact that the client prefers to use the internal customs and procedures rather than incorporating the standards introduced by the management contractor.

The respondent responded that there is a regular reporting and meeting schedule with the client organization ERC to discuss about the operation status and raise issues that need the attention of the client organization.

#### **4.3.2.2 Interview with the Local General Manager of AALRT**

The interview was made with lots of ups and downs, with a lot of rescheduled arrangements. This was because the official was too busy conducting office works, conducting business meetings and operations responses as the work involves real time incidents that need attention. The interview took about an hour.

The respondent mentioned several reasons to outsource this project but pointed that the most prominent ones are related with capacity, knowledge and skills, safety and management. In addition, the respondent said that the AALRT is new to the country with no prior rail urban transit system which makes outsourcing a prime option. The issue of limitation of capacity both financially and competencies in the operation and maintenance of rail facility makes administering the project in house undesirable. He also mentioned that the project is complex involving advanced technologies which are relatively new. He also pointed that the project for AALRT was also an Engineering Procurement and Construction (EPC) for the reasons stated above and others. The other reason is related with international experience as noted by the respondent where rail operation management outsourcing is common in developed as well as developing countries citing South Korea as an example.

The issue of safety in mass transport is paramount requiring expertise which could be realized using outsourcing as stated by the respondent. Outsourcing choice allows picking contractors with wide range of experience and international exposure. As in the case of AALRT, there is no

local government or private entity with the required number of skill and expertise to run a startup company like AALRT.

The respondent also discussed that the need to start the operation was urgent as it was behind schedule so immediate decisions were necessary. Thus engaging in house capacity by developing from scratch would take enormous time and so the company preferred to take the outsource option. This implies that the outsourcing initiative has a sense of urgency due to political concerns.

The other reason mentioned is that the goal of the outsource is not only operation and maintenance but also knowledge transfer to enhance local skills so that managing and operating similar projects in the country have adequate pool of talent.

#### **Part four- Performance Monitoring and Evaluation**

The respondent described a healthy working relationship between his counterpart and those of the local staff with the management contractor personnel. He also noted that the local staffs are periodically engaging as the contract terms depict in managerial and decision roles assisting and replacing the management contractor roles in both production and functional departments.

As the data from the interview show, even though the general performance of the outsource contractor is acceptable, there were several challenges encountered during the outsourcing process. There were challenges in different process of the outsourcing contract which include the preliminary process of decision to outsource, in vendor selection, requirements specification, in defining SLAs, in managing the contract agreement, and testing and implementation of the contract. The challenges emerge from both sides of the contracting parties. Some of the challenges discussed are:

He started mentioning the partial fulfillment of external necessary conditions for commencing the operation management. The respondent said that the contract agreement puts forward necessary external conditions for commencement of the management contractor as set in the attachment of the contract document. Accordingly, the most prominent ones discussed in the interview are as follows:

- Availability of stable electric power supply
- Availability of water supply
- Availability of emergency rescue vehicles
- Provision of key spare parts and equipment
- Provisions of adequate number of rolling stock to meet the demand of the project
- Completion of civil works of the AALRT project
- Completion of equipment installation, testing and commissioning works
- Provision of full project as built design documents and drawings
- Safety verification certificates of equipment and facilities
- Government approved written permission to start public transport operation

The main challenge for the outsource contract lies in lack of fulfillment of some of the conditions listed above as the respondent claims. For example the issue of stable supply of electric power is

a major challenge for AALRT which directly affect the performance related with customer service and operation. This issue is one of the main factors hindering the profound target achievement of AALRT. The other major challenge is the issue of lack of necessary main spare parts for the rolling stock which roles back to the time of project time contract. Again this phenomenon directly affects the performance of customer service of AALRT operation.

The other challenge is related to vehicle accidents in the vicinity of the main line of AALRT. As the respondent describes, the target set for accident in the contract is achieved excellently. However, accidents due to social vehicles and trucks affect the availability and reliability of the trains. This causes delay and cancellation of trips for several hours.

The respondent also mentioned few challenges in technical systems failure. However, even though these issues affect the performance of the management contractor, assessing the performance with regard to maintenance is not the scope of this study.

To tackle the challenges, the respondent said that the management contractor and the local counterparts are working hand in hand solving one by one. For issues that need further attention, he said that correspondences and discussions are done with ERC top management.

When asked about the quality of the deliverables, the respondent agreed that detail terms for the quality of the deliverables are not presented in the contract; however, the key performance indicators are monitored and supervised with a weekly production meeting involving all the managers and directors including himself and his counterpart.

The local general manager summarized the interview by stating that the overall accomplishment of the management outsource performance is acceptable with the existing challenges. However, lessons should be taken so that future projects like this one will not be victims of the challenges like this one. He also stated that currently, he is negotiating with the management contractor concerning the termination or the exit plan.

#### **4.3.2.3 Interview Conducted with the Team Leader of Operation Contract Administration Department of ERC**

##### **Part Two Outsourcing Background**

The interviewee briefed about the department and its establishment to supervise operation contracts on behalf of ERC. He mentioned that it was reestablished with the re-structuring of ERC organizational structure; previously it was the contract management department with such responsibilities. The restructuring brought follow up and monitoring sections to supervise the performance of operating projects. For the case of AALRT, the respondent or the department had no involvement in the preliminary processes of the contract because of the establishment of the department after the management contract started work. Thus the researcher could not get further data from the respondent for part two of the interview. However, he tried to gather available information from the documents about the outsource background.

##### **Part Three Performance of the Contract**

According to the respondent, the contract depicts the following issues the details of the performance of the contractor in the general conditions of contract. These are:

- Standards for performance of the service
- Management contractor personnel standards
- Compliance to local and international laws and regulations
- Operation records and reports
- No liens or encumbrances by the management contractor

Among the above stated obligations of the management contractor, the personnel standards depicted in the contract, according to the data of the respondents has deviations. The personnel depicted in the contract are replaced by others. The respondent also mentioned that the client, ERC does not supervise the academic qualification of the management contractor personnel, even though the contract commands the management contractor to follow human resource regulations and laws of recruitment. The researcher suggests that the client should make inspection of the technical and managerial capabilities of the management contractor personnel to achieve the desired performance.

When asked about the general content of the contract, the respondent responded that the contract has fundamentally the contract document along with attachments and appendices, minutes of meeting for contract negotiation, general and special conditions of contract, management contractor bid proposal and performance guarantee. Besides that, because of company policy detail probing was not possible.

He also mentioned that the contract specified operation and management contract delivery plan in the contract. The major ones as stated by the respondent are:

- Monthly, semester and annual report submission
- Operation documents, standards and regulations
- Reports on testing, trial run and commissioning
- 5 year strategic business plan
- Handover report submission on termination

According to the response of the operation contract team leader, the contract document contains service level agreements for the deliverables and targets. However, the SLAs didn't have the necessary detail regarding specifying the deliverables such as quality. They lack defined metrics to measure quality of deliverables. It is only through qualitative terms that the client can assess the deliverables.

Service level targets are set for all KPIs in the contract with two categories of safety and service quality. Payments in the contract are to be done according to the weights defined for the KPIs for which the service level targets have been met. The following table contains data concerning the targeted service levels in the contract gathered from the interview.

Category	Subcategory	KPI	Weight	Targeted performance level	KPI score	Score deviations from targeted performance
Infrastructure management service	Safety	Infrastructure safety	25%	25 accident per million train kilometer	25	1 point for increase or decrease
		Work place safety	25%	30 accidents per 365 days	25	1.2 point for increase or decrease
	Service Quality	Train availability	25%	15%	25	0.3 point for increase or decrease
		Network reliability	25%	65% delay with 5 min tolerance	25	0.4 point for increase or decrease
	Total		100%			

**Table 5: Targeted service levels and KPIs**

The terms for the service levels are described in the contract as: in the first year 80% or above of targeted service level, in the second year 90% or above of targeted service level and in the third year 100% or above of targeted service level.

Concerning liabilities and warranty, the respondent stated that one of the key documents for the contract is performance guarantee. Guarantee is the heart of a service level agreement whether it is a short term or long term. Guarantee for the breach of a term of agreement by the vendor in relation to service levels in delivering a product has to be clearly specified in the agreement. It is important to ensure that losses are recoverable by explicitly providing for them in the contract (Lee, 1996). The contract document should include terms or provisions that can penalize the contractor financially for non-performance to compensate the client for losses (Ibid). In the case study contract, the response of the respondent affirmed the issue of performance guarantee of the contractor as a fundamental part of the contract. He mentioned that the contract issues a 5% of bank guarantee of the total contract price which shall be released after the completion of the warranty period.

The data gathered indicate that issues concerning licenses and intellectual property rights, the right to the product such as information or data, manuals, software, calculations and supporting records prepared, acquired or compiled by the management contractor shall become the absolute property of the client as stipulated in the contract. The respondent mentioned that the contract states that except for materials or information or document prepared or developed by the management contractor or its agents or subcontractors contain proprietary information, the management contractor shall have the right to retain all rights to use or dispose of such

information. However, the client to the same extent can use the information for operation and maintenance of the project. Lee (1996) indicated that, the outsourcing client should insist intellectual property produced by the contractor in servicing the customer should belong to the customer otherwise it should be given provisions for future modifications. The respondent is not sure if his company is willing or acting to secure any one of the two options. In line with this he stated problems he faced concerning the handover of documents from the contractor of AALRT project with software programs which were not genuine. He also suggests that giving care for such issues is important when the need for modifications arise when the operation is handed over to the local staff. The other thing mentioned is that some of the operational functions, especially in the maintenance department, there are subcontracted systems where the room for provisions of intellectual property is none. Since the issue of maintenance performance is not the concern of this paper, the researcher shall not investigate this issue further.

When asked about experienced disputes with the contractor, the respondent said that no such case was happened or recorded as the performance records and reports are submitted periodically and discussions take place where misunderstandings occur. The contract however is equipped with articles specifying conditions of conflict or dispute resolution terms. According to Lee (1996) in cases where there are disputes the parties can use third parties (arbitration) but when arbitration does not work and the contract must be terminated, the consequences of termination must be taken into account relevant provisions in the outsourcing contract.

#### **Part Four Performance Monitoring of Outsource Management Contract**

When asked about the challenges in supervising the operation of the management contractor, the respondent primarily indicated serious lack of man power in the department to monitor and follow up the progress. The other challenge mentioned is overlap of responsibilities. The contract states that the management contractor addresses the deputy chief executive officer of operations and services division of ERC. The division has a department composed to follow the progress of the project. There is a role conflict between the operation contract administration team and the department in the operation division. This affected the monitoring of the progress.

When asked about the level of performance considering the current progress of the management contract. He stated that most of the targets are achieved above the minimum set criteria in the contract. He also answered for the question about the autonomy of the management contractor. He agreed that the client ERC provides the necessary level of autonomy in the contract. In reality however, there are setbacks and interferences that limited the functions of the management contractor.

##### **4.3.2.4 Interview with Assistant Training Coordinator**

According to the data from the training management, more than 254 local staff engaged and completed training programs abroad and in AALRT compound so far. The training focused on technical skill transfer in the maintenance and operation, customer service skills and leadership skills. The management contractor met the target number of training personnel in the contract according to the response of the training coordinator on behalf of the management contractor.

On the other hand, the local staff respondent in charge of assisting the training program believe that the skill transfer could not meet their expectation and the expectations of their staff, she argue that one of the reason for the outsourcing, was to build the capacity of the local staff that will overtake the operation and maintenance. Several reasons hinder the success of the achievement with regard to training and development. She provides various reasons for the failure of the knowledge transfer.

- Lack of proper evaluation, monitoring and follow up by the client organization
- Language barriers and communication problems
- Lack of coordinated plans and programs of trainings
- Clash between training tasks and operation activities
- Lack of qualified training personnel

She also stressed that she does not have adequate awareness of the terms for training and development in the contract agreement. This limited her efforts to engage in evaluations for the delivered training program qualities. She also noted that there is no conclusive performance evaluation methodology for the training program besides listing training attendants and time lapsed during the training hours. On the other hand, she also points the lack of interest and commitment of trainers which adds to the problem. In this year the management contractor is conducting training for the management staff which incorporated leadership and management concepts. She claims that the arrangement for this training lacks proper preparations in terms of training classes and resources. In this training she believes that the contractor was concerned with implementing the formalities of the contract for knowledge transfer rather than really engaging in facilitating conditions for the proper transfer of skills. Tasks were done just for the purpose of reports and could not attain the real goal of educating the prospective trainers.

#### **4.4 Observation Data Analysis and Discussion**

The researcher was engaged in independent observation after consulting with the officials of the company to observe actual conditions in training and development and passenger service. The researcher had access to observe training programs provided by the contractor for technical and customer service staff. The researcher also observed transportation section operation dispatching which handles plans for trips, controls operation and organizes responses to emergencies.

The researcher observed that the efforts done by the management contractor to reduce train passenger waiting time to attain the targets in the contract was not successful due to lack of coordination with the human resource department and ERC.

The researcher observed harmonious working environment between the local staff and the management contractor with a team spirit. Problems like vacancy of relevant posts of key positions, issues related with benefits package due to lack of actions of the human resource department and ERC are observed to affect performance of the operation management.

In regard to organizational structure, the researcher observed that the client organization, ERC, accepted the organizational structure submitted by the management contractor. In 2016, ERC made structural reform which included AALRT's local staff. The newly introduced structure had

problems of alignment with the structure of the management contractor which shows absence of communication when ERC made structural reforms. One thing to mention here is that according to the observations, the structure introduced by the management contractor mainly focused on managerial positions and lack details beyond these posts. This created ambiguities for positions below management. The structure also puts the post for customer service management. However, this post is vacant along with the department which hindered data collection concerning customer service from the department. The researcher recommends the allocation of the necessary human resource and the establishment for the department of customer service management. This will improve the performance of the service delivery.

The other issue concerning the performance of the outsource contract related with external factors like power fluctuations, lack of spare parts for the rolling stock, unfilled vacant posts of local staff, lack of favorable benefits package for local staff playing their role in affecting the operation of AALRTS.

## **Chapter Five**

## 5 Findings, Conclusion and Recommendations

### 5.1 Summary of Findings

The following are the major findings of this study:

- The motivations for outsourcing the operation management can be categorized as technological complexity, lack of experience and familiarity to undertake the operation in house, thus demanding experienced international vendor to handle operation and maintenance of AART. These findings are consistent with the literature referred. For instance, some of the findings are also consistent with findings of Lacity and Willcocks (1997) found in their studies that outsourcing was perceived as a solution to inadequate internal systems.
- The data from the respondents show that most of the respondents believed that the outsource management contractor performance with regard to training and development is achieving target. On the other hand few of the local respondents do not agree. With regard to safety targets, all the respondents agree that the management contractor achieved the targets. Overall, the local staff respondents agree on the importance of outsourcing the management contract for better performance. Findings of the data from the interview also reveal that the overall customer service delivery needs improvement.
- Basically, the researcher finds that the targets set in the contract are met with regard to safety. Targets with regard to train punctuality, availability and reliability are not achieved affecting customer service. Trip cancellations in the contract were not achieved. The contractor claims the reasons for this to be unmet external necessities which it requested prior to the operation of AALRT. Train delays and passenger clear were also not achieved pertaining to different reasons, some of which are beyond the scope of the management contractor. Train availability target were also not achieved, the researcher also found that the number of available trains is decreasing from time to time. The management contractor again claims that the reasons behind this are related with unmet external demand of provision of adequate number of rolling stock and the provision of spare parts. The management contractor puts these preconditions for the attainment of the set targets. Here the researcher also agrees that the external requirements put by the management contractor should have been fulfilled to clearly measure the performance of the targets. This puts the client part of the cause for poor performance. The researcher also found that car accidents in the vicinity of the rail line contribute significantly in reducing the performance of AALRT customer service.
- On the other hand, the researcher found that the safety targets for accident have been achieved profoundly. This is related to the achievement of training targets for the train operators. The researcher observed that the training program for the train operators is comprehensive and successful. At the time of the research undertaking, all the train operators are local staffs. This shows a great deal of target attainment as the researcher believes.
- The other finding is related to expectations during starting and the ending or termination processes. Related to expectation is insufficient risk assessment prior to contracting. For example in the case of AALRT, the contractor did not consider the shortage of foreign currency in the risk assessment which weakened its negotiation capabilities during contract pricing and payment.

- From the observation, the researcher found that the terms of the contract were not properly communicated to the local staff. This hinders their efforts to evaluate the performance of the contractor in achieving set standards and KPI's like financial target or ridership. The evaluation of the contractor performance was not officially provided to them for their respective departments. The evaluation of the contractor performance is made at the top management of ERC.

The researcher also found the following conditions which contribute to missing intended targets in the outsource contract. These are:

- Lack of executive management commitment
- Minimal knowledge and preparations in the client side when outsourcing
- Lack of contractor vs. client relationship and communications plan
- Failure to recognize outsourcing risks
- Failure to benchmark and consult experiences from successful outsource businesses
- Lack of planning to utilize internal resources (both human and resources)
- Rushing for decisions and actions
- Not considering cultural differences
- Ignoring or leaving the implementation of terms in the contract
- Failure to appoint personnel in charge of managing the relationship and contract
- Lack or insufficient incentives to motivate both individuals and the organization on both sides
- The researcher also found that unfulfilled demands from external stakeholders and the client organization greatly affect the operation service reliability and thus the performance of the management contractor. As we can see from the interview results with the discussions with the local general manager of AALRT, the researcher observed that some of them have not been fulfilled even until today for that matter.

To summarize the findings, data gathered from the interviews and document review reveals the following findings. These are:

- The contract agreement included necessary terms which are expected of a typical management outsource contract
- Detailed metrics used to measure and manage performance of SLAs are important for successful agreement and are critical for performance objective attainment.
- Targets set in the contract concerning train punctuality; train availability and reliability are not achieved.
- Targets for training and development program are achieved according to the contract.

The researcher after observation and data gathering states that the reasons for unattained targets were related to both parties and other stakeholders.

## **5.2 Conclusion**

This paper was about the research undertaken to assess the performance of outsource management contract in the case of AALRT. To achieve its objectives, the study used literature

review, interview and observation as a research instrument where exploratory analysis was made. Data were collected from both primary and secondary sources. The gathered data were then analyzed to arrive on key findings. Upon the assessment, factors affecting the performance are investigated; the performance of the outsource contractor with regard to customer service and technology transfer were also investigated. The findings of the study reveal that the performance related with customer service is not achieved. On the other hand performance target for training and development is achieved. Finally, Lee (1996) states that signing a contract agreement will not be a guarantee for successful outsourcing. It needs serious and careful follow up of the implementations based on the agreement to achieve maximum performance.

The researcher faced both controllable and uncontrollable obstacles while conducting the research but kept on going to discover key findings which are the heart of the thesis work. There were also limitations with regard to access to information which if available would have helped enlarge the scope of the study.

In terms of personal preparations of the researcher, there was a challenge as being a foreigner due to limitations of information and cultural differences. One thing that helped the researcher is the career taken before in a construction firm to be easily familiar with technical aspects of contract management. The issue of time was also a constraint which was partly consumed with personal emergencies back home. Lack of adequate research works in the subject matter locally is another challenge which was circumvented by using scholarly works as references from other countries including China.

### **5.3 Recommendations**

Based on the findings of the study, the following recommendations are made:

- To supervise the contractor's performance on the achievement of targets and quality of deliverables, the researcher recommends the client to use the contract agreement and other documents agreed between the two parties to support the contract document. Periodic reporting and scheduled discussions are necessary mechanisms to exchange performance data.
- It is recommended that government should play critical roles in securing foreign currencies to facilitate the execution of projects like AALRT
- Having a well-established contract leads to a smooth relationship with the stakeholders. It is hence recommended to have a clear contract demarcation with detailed SLAs which leads to success with a proper follow up & monitoring.
- The other issue related to risks is the issue of change management, during the interview; the general manager on behalf of the contractor did not want to consider this question. However, it is the belief of the researcher that flexible approaches and adaptations and challenges to the status quo need to be applied to change weak organizational cultures. In this regard, the researcher observed conflicts between the contractor and the local staff concerning the issue of punctuality. The contractor is equipped with staff with exemplary role in time management. The local staff however has underestimations to the value of punctuality. In response to this the contractor did not innovate ways to curb this culture instead of oral suggestions.

- According to the responses from respondents, among the pillar documents in the contract, risk assessment and mitigation document is not included. The researcher believes that having a well-considered risk management document is critical in such type of contracts, even though one cannot finish listing all the risks. For example in the case of AALRT, according to the observation of the researcher, vehicle accidents play major roles in disturbing the operation of the trains which significantly contribute to trip cancellations and delays affecting the attainment of the performance indicator targets. Since most of the rail line is constructed at grade level, there is frequent vehicle accident both day and more at nights.
- The researcher could not come across a feasibility study and also was told by the respondents that feasibility study was not done to assess the capacity of in house management of the operation of AALRT. The researcher recommends that the client company to undertake feasibility studies when considering outsourcing other projects. Surveyed literatures also agree that feasibility studies to be done before initial decisions to outsource projects.
- According to the data from the respondents, the need to start the operation of AALRT was urgent at the time forcing quick and irrational decisions which ultimately affect the performance of the operation. Thus the researcher recommends careful and rational decisions should be made resisting the urges and political influences for quick actions for a sustained benefit.
- As per the interview made, after the decision to outsource the operation and maintenance of AALRT, client requirements were given to the team constructed by the outsource contractor. It is appropriate to mention here that the contract administration department did not engage in these negotiations. Thus the researcher suggests that it is important to consider all the relevant stakeholders in the selection and negotiations as they are going to share the same burden later on for the success of the outsource contract.

### **Recommendations for the Client Organization ERC**

- Proper follow up of progress and meet payment dues in the contract to facilitate the fulfillment of the responsibility of the management contractor
- Conducting negotiating task force or team to facilitate the coordination with external stakeholders to meet external necessary conditions for the management contractor performance
- Limiting interference and allowing adequate degree of autonomy for management contractor to handle management and operational issues
- Proper utilization of the operation contract administration department by recruiting relevant human resource and involving it in contract negotiations and preliminary works
- Making necessary preparations and enhancing capacities as client when planning outsourcing management projects
- Focusing efforts to tackle external factors ( power stability, spare parts, vehicle accident) that affect the performance of the operation of AALRT
- Thorough inspection of the technical and managerial capabilities of the management contractor personnel to achieve the desired performance

- Avoiding overlap of responsibilities between operation contract administration department and the operation and services division in performance monitoring and follow up of management contractor
- Force the management contractor to Provide comprehensive of training program evaluation methodology and provision of qualified trainers
- Increasing the level of awareness of the AALRT management staff about the contract terms and performance parameters to be achieved
- Facilitate the filling of vacant posts in AALRT and issue necessary benefits packages program for the local staff
- Coordinate with stakeholders and the government to facilitate the provision of necessary equipment and spare parts for the rolling stock to achieve the targets set for train availability and reliability.

### **Recommendations for Future Research Areas**

- Considering the role of external factors in outsource management contract and risk assessment shall also be considered as another potential researchable area.
- This study is conducted considering a single organization following a case study approach, thus may not represent the general outsourcing management in the country. Hence other studies can be made considering different organizations for understanding the similarities and differences of the experiences, problems/ challenges in regard to performance assessment
- Studies to assess the capability or maturity of in house management of customer service or maintenance management are also appropriate as the outsource management contract will eventually be handed over to the client.

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## **Annexes**

### **Interview Questions for the Interview with the General Manager on behalf of the Management Contractor**

#### **General Orientation**

Dear interviewee, this interview is conducted as part of a research project which is to be submitted in partial fulfillment of the master's degree in Project Management at Addis Ababa University. The purpose of the thesis is to assess the performance of the outsource management contract with a case study at Addis Ababa Light Rail Transit. The data gathered through this interview is applicable solely for the purpose of this study. Thank you for your participation.

#### **Part One- Introductory Questions**

- a) Can you tell us about your organization?
- b) In which positions and for how long have you worked in this organization?
- c) What are the key responsibilities and roles you shoulder in this organization?
- d) What was your previous experience before you started working in this organization?

#### **Part Two-Outsourcing Background**

Please introduce me about the outsourcing story accordingly:

- a) What preliminary processes did you go through during the initiation of the outsource management contract?
- b) Does your company have previous experiences of contracting management outsource contracts? If yes, please tell me briefly.
- c) Who was responsible for carrying preparing the contract on behalf of your company?
- d) Was there a consulting party on your behalf for the outsourcing contract preparations?
- e) When was the contract with your client signed? How long was the contractual period in the initial agreement?
  - a) Is the contractual agreement currently ongoing?
- f) Did you assess risks before signing the contract? How did you assess the risks associated with the outsourcing?
- g) Does the management contract contain performance appraisal?

#### **Part Three-Outsourcing Contract and Service Level Agreement (SLA)**

- a) Do you have a formal outsource management contract? Does the outsourcing contract legally bound the rights and obligations of the outsource contractor and your organization?
- b) How do you describe the content of the contract?

- c) Does the outsource contract contain SLAs (service level agreements) that define the functions and service standards to be provided by stating the standards for the deliverables with agreed qualities?
- d) How are licenses and intellectual property rights treated in the contract?
- e) What are the contract terms for service level requirements and penalties for nonperformance?
- f) How is liability insurance against loss or liability for poor performance described in your contract?

**Part Four-Performance Monitoring and Evaluation of the Outsource Management contract Implementation**

- a) How do you describe the working relationship between the local staff and the outsourcing contractor? To what extent does the contract allow the local management and staff to engage and influence actions?
- b) What are the key performance indicators stated in the operation and maintenance management contract? What measures do you take to assess the success of the outsource project?
- c) How do you measure attainment of the project deliverables, especially in terms of technology transfer? How do you assess the quality of this deliverables?
- d) How do you describe the internal culture of the organization? Is there an incident where it became a roadblock against successful accomplishment of the contract?
- e) How do you handle internal resistances to change and culture clashes with the client organization?
- f) How do you describe the communication you have with the client organization?
- g) Have you had any disputes with the client? How were they resolved?
- h) What are the problems/challenges you experienced in the outsourcing process so far?
- i) Was there any effort made to manage such challenges? If yes:
  - a. What is it and how?
  - b. Was it successful? If not, why
- j) How is your relation with the contract administration department of ERC concerning the management contract and its implementation? How do you communicate about the contract progress? How often do you arrange meetings to discuss about the implementation?

**Part Five-Final View**

- a) How satisfied are you with the overall performance/services of the outsourced operation and maintenance management contract?
- b) What are the lessons you learned?
  - a. If you had it to do all over again, what would you do differently?
  - b. What capabilities you think your company should add to make sure the outsourcing is a success?
- c) What do you perceive as the strengths and weaknesses of the client organization?
- d) What options or exit strategies do you have to end your contract?
- e) Are there any comments that you would like to make? You can mention anything that I haven't covered?

## Interview Questions for the Training Coordinator on behalf of the Management Contractor SZMC

### **General Orientation**

Dear interviewee, this interview is conducted as part of a research project which is to be submitted in partial fulfillment of the master's degree in Project Management at Addis Ababa University. The purpose of the thesis is to assess the performance of the outsource management contract with a case study at Addis Ababa Light Rail Transit. The data gathered through this interview is applicable solely for the purpose of this study. Thank you for your participation.

### **Part One- Introductory Questions**

- e) Briefly introduce your background and educational history
- f) In which positions and for how long have you worked in SZMC?
- g) What are the key responsibilities and roles you shouldered?
- h) What was your previous experience before you started working in SZMC?
- i) Please describe your major responsibilities in AALRT

### **Part 1- Performance Monitoring and Evaluation of the Outsource Management contract Implementation with Regard to Maintenance of Equipment**

- k) How do you describe the working relationship between the local staff and the Chinese staff in your department?
- l) What are the key performance indicators with regard to customer service process? What measures do you take to assess the success of their achievement? How do you assess the quality of service?
- m) How do you describe the internal culture of the organization? Is there an incident where it became a roadblock against successful accomplishment of the contract?
- n) How do you handle internal resistances to change and culture clashes with the client organization?
- o) How do you describe the communication you have with the local staff (client organization)? How do you report your performances? To whom do you report?
- p) Do you have a system of measuring customer satisfaction and feedback?
- q) What are the problems/challenges you experienced in the training and knowledge transfer process so far?
- r) Was there any effort made to manage such challenges? If yes:
  - a. What is it and how?
  - b. Was it successful? If not, why
- s) How is your relation with ERC concerning the implementation of the terms in the management contract?

### **Part 5-Reflections**

- f) How satisfied are you with the overall performance/services of the customer service in AALRTS?
- g) Are there any comments that you would like to make? You can mention anything that I haven't covered?

## **Interview Questions for the Interview with the Local General Manager of AALRTS**

### **General Orientation**

Dear interviewee, this interview is conducted as part of a research project which is to be submitted in partial fulfillment of the master's degree in Project Management at Addis Ababa University. The purpose of the thesis is to assess the performance of the outsource management contract with a case study at Addis Ababa Light Rail Transit. The data gathered through this interview is applicable solely for the purpose of this study. Thank you for your participation.

### **Part One- Introductory Questions**

- j) Can you tell us about your organization?
- k) In which positions and for how long have you worked in this organization?
- l) What are the key responsibilities and roles you shoulder in this organization?
- m) What was your previous experience before you started working in this organization?

### **Part Two- Outsourcing Background**

Please introduce me about the outsourcing story accordingly:

- h) Who initiated outsourcing the management (government)? Who was involved, what preliminary processes did you go through?
- i) Who was responsible for carrying out the outsourcing contract?
- j) How was the selection process for the outsourcing contractor? What were your criteria?
- k) Was there a consulting party in the selection of the outsourcing contractor?
- l) When was the contract with your outsourcer signed? How long was the contractual period in the initial agreement?
  - b) Is the contractual agreement currently ongoing?
- m) Did your organization use any formal/informal methods or techniques to evaluate the outsourcing contracts prior to signing? If yes, please tell me briefly about it.
- n) Did you assess risks before signing the contract? How did you assess the risks associated with the outsourcing?

### **Part Three- Outsourcing Contract and Service Level Agreement (SLA)**

- g) Do you have a formal outsource management contract? Does the outsourcing contract legally bound the rights and obligations of the outsource contractor and your organization?
- h) How do you describe the content of the contract?
- i) Does the outsource contract contain SLAs that define the functions and service standards to be provided by stating the standards for the deliverables with agreed qualities?
- j) How are licenses and intellectual property rights treated in the contract?
- k) What are the contract terms for service level requirements and penalties for nonperformance?
- l) How is liability insurance against loss or liability for poor performance described in your contract?

#### **Part Four- Performance Monitoring and Evaluation of the Outsource Management contract Implementation**

- t) How do you describe the working relationship between the local staff and the outsourcing contractor? To what extent do the local management and staff have responsibility, authority, and possibility to influence the management contractor?
- u) Have you had any disputes with the supplier? How were they resolved? Have you ever encountered cases where the contractor refused to implement covered in the contract?
- v) What are the problems/challenges you experienced in the outsourcing process so far?
- w) Was there any effort made to manage such challenges? If yes:
  - a. What is it and how?
  - b. Was it successful? If not, why
- x) How is your relation with the contract administration department of ERC concerning the management contract and its implementation? How do you communicate about the contract progress? How often do you arrange meetings to discuss about the implementation?
- y) How did you assess the quality of the deliverables? What mechanisms in the contract or processes did you use to maintain quality?

#### **Part Five- Final View**

- h) How satisfied are you with the overall performance/services of the outsourced operation and maintenance management contract?
- i) In your opinion, was it a good decision to outsource the operation and management of AALRTS?
- j) What are the lessons you learned concerning the best and worst practices of outsourcing?
  - a. If you had it to do all over again, what would you do differently?
  - b. What capabilities do you need in house to make sure the outsourcing is a success?
- k) What do you perceive as the strengths and weaknesses of the contract and the contractor?
- l) What options or exit strategies do you have to end your contract?
- m) Are there any comments that you would like to make? You can mention anything that I haven't covered?

#### **Interview Questions for the Interview with the Team Leader of Operation Contract Administration Department of ERC**

##### **General Orientation**

Dear interviewee, this interview is conducted as part of a research project which is to be submitted in partial fulfillment of the master's degree in Project Management at Addis Ababa University. The purpose of the thesis is to assess the performance of the outsource management contract with a case study at Addis Ababa Light Rail Transit. The data gathered through this interview is applicable solely for the purpose of this study. Thank you for your participation.

## **Part One- Introductory Questions**

- n) Can you tell us about your organization?
- o) In which positions and for how long have you worked in this organization?
- p) What are the key responsibilities and roles you shoulder in this organization?
- q) What was your previous experience before you started working in this organization?

## **Part Two- Outsourcing Background**

Please introduce me about the outsourcing story accordingly:

- o) Who initiated outsourcing the management (government?)? Who was involved, what preliminary processes did you go through?
- p) What was your involvement and who was responsible for carrying out the outsourcing contract?
- q) What was the motive to outsource AALRTS operation and maintenance management?
- r) How was the selection and negotiation process for the outsourcing contractor? What were your criteria? Was there international open tender?
- s) What were the major targets set for the company performing the outsourcing?
- t) Was there a consulting party in the selection of the outsourcing contractor?
- u) Did your organization use any formal/informal methods or techniques to evaluate the outsourcing contracts prior to signing? If yes, please tell me briefly about it.
- v) Did you assess risks before signing the contract? How did you assess the risks associated with the outsourcing?

## **Part Three- Outsourcing Contract and Service Level Agreement (SLA)**

- m) How do you describe the content of the contract?
- n) Does the outsource contract contain SLAs that define the functions and service standards to be provided by stating the standards for the deliverables with agreed qualities?
- o) How are licenses and intellectual property rights treated in the contract?
- p) What are the contract terms for service level requirements and penalties for nonperformance? Does your organization have a legal body to handle such issues?
- q) How is liability insurance against loss or liability for poor performance described in the contract?

## **Part Four- Performance Monitoring and Evaluation of the Outsource Management contract Implementation**

- z) How do you describe the working relationship between the local staff and the outsourcing contractor?
- aa) Have you experienced disputes with the contractor? How were they resolved? Have you ever encountered cases where the contractor refused to implement covered in the contract?
- bb) What are the problems/challenges you experienced in supervising the outsourcing process so far?

- cc) Was there any effort made to manage such challenges? If yes:
  - a. What is it and how?
  - b. Was it successful? If not, why
- dd) How is your relation with the local contractor concerning the management contract and its implementation? How do you communicate about the contract progress? How often do you arrange meetings to discuss about the implementation?
- ee) How did you assess the quality of the deliverables? What mechanisms in the contract or processes did you use to maintain quality?
- ff) Considering the current progress of the outsourcing period can you say all the targets have been achieved beyond the minimum criteria set? If not which one's were not achieved? Why?
- gg) Did the outsourcing provide the outsource company SZMC with full authority to decide on issues related to the company (HR, Finance, Transport, Ticketing, procurement etc.)? If the authority was limited which were areas of full authority and which were not?

### **Part Five- Final View**

- n) How satisfied are you with the overall performance/services of the outsourced operation and maintenance management contract?
- o) Do you think that there is a possibility of extending the contract? Why so?
- p) In which aspects do you think the contractor improved the company's performance?
- q) In your opinion, was it a good decision to outsource the operation and management of AALRTS?
- r) What are the lessons you learned concerning the best and worst practices of outsourcing?
  - a. If you had it to do all over again, what would you do differently?
  - b. What capabilities do you need in house to make sure the outsourcing is a success?
- s) What do you perceive as the strengths and weaknesses of the contract and the contractor?
- t) Now that the contract is at its final year, what can you say about the sustainability of the changes introduced on the management of AALRTS?
- u) What options or exit strategies do you have to end your contract?
- v) From your point of view what were the pros and cons of the outsourcing. Which one outweighs?
- w) Are there any comments that you would like to make? You can mention anything that I haven't covered?