Addis Ababa University

School of Commerce

Logistics and Supply Chain Management Unit

Challenges and Benefits of Outsourcing Practices: The case of Dashen Bank s.c, Ethiopia

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University School of Commerce in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Logistics and Supply Chain Management

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DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT

Benefits and Challenges of Outsourcing Practices,
The Case of Dashen Bank of Ethiopia Addis Ababa!

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Approval of Board of Examiners

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Declaration

I, the undersigned, declare that this thesis under the title "Benefits and Challenges of Outsourcing Practices: the case of Dashen Bank s.c, Ethiopia" is my original work and has not been presented for a degree in any other university, and that all source of materials used for the thesis have been duly acknowledged.

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Certification

This is to certify that ErmiasTaye has carried out this research work entitled ‘’Benefits and Challenges of Outsourcing Practices at Dashen Bank s.c’’ as a partial fulfillment of the requirement of Masters of Arts Degree in Logistics and Supply Chain Management. Ermias has carried out the work under my supervision and guidance’s. To the best of my knowledge the work is original in nature and it is sufficient for submission.

Signed by the:

Advisor _____ Signature _____ Date _____

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Acronyms

SPSS Statistical Package for Social Sciences

STAT Statistical Database

USA United States of America

USAID United states agency for international development

USD United States Dollar

DB Dashen Bank

S.C Share Company

RFT Request for Information

RFP Request for Proposal

RFQ Request for Quotation

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Abstract

Banks play a vital role in the socio-economic development of our country. They offer several facilities to improve the standard of living of our citizens. Outsourcing is a management strategy by which an organization gives major or non-core business functions to specialized and efficient service providers. The use of outsourcing at Dashen bank is very low with the exception of outsourcing some non-core functions like Security service, courier service and Janitorial service. The purpose of this research was to assess the benefits and challenges of outsourcing the business function in Dashen bank. The study areas were Dashen bank branches under Addis Ababa city and the outsourcing administrative office. The research employed a descriptive design and both quantitative and qualitative approach was used. Data for the study was collected using a self-administered questionnaire procedure, where the questionnaires were administered to the respondents through drop and pick later technique. A sample size of 235 respondents was drawn from the sample frame using stratified random sampling and purposive sampling technique to promote the needs for efficiency and representativeness from various levels. . Data was analyzed by aid of Statistical Package for Social Sciences (SPSS) version 20. Interestingly, certain findings were discovered which include challenges faced by the bank in outsourcing some of their non-core activities. Some of these challenges were conflict of interest among outsourced and permanent employees; low morale employee and loss of control were the major challenges of the bank due to outsourcing those activities. The major motivations for outsourcing are management convenience and focus on core business. And the benefits are save time for management and to focus more on core functions. Contrasting to the regular staffs of the bank the outsourced employees had brought many benefits to the Bank in reducing administrative burden increasing flexibility, minimizing costs. Finally, the research was concluded with the statement that nevertheless the challenges, outsourcing plays an important role at the Bank, since it enables the organization to enjoy a lot of benefits and also concentrate on their core activities.

Keywords: challenges of Outsourcing, benefits of outsourcing, Dashen Bank.

CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

Outsourcing refers to a system of hiring business services from the outside world, which were previously provided internally or from within the country. Today, organizations increasingly hire services such as legal services, music recording, book transcriptions, information technology, security, teaching etc. from the foreign countries. Generally, services are outsourced by the companies in developed countries to developing or underdeveloped countries (Charles et al, 2013). Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves. Due to widespread outsourcing practices, it has become a frequent topic in the literature. Numerous reasons why outsourcing is initiated have been identified by researchers. Organizations may expect to achieve many different benefits through successful outsourcing, although there are significant risks that may be realized if outsourcing is not successful (Tibor et al., 2006).

Outsourcing is a management strategy by which an organization delegates major, non-core business functions to specialized and efficient service providers (Corbett, 1999). Outsourcing business operations and processes usually inevitable in instances where a specific firm has no knowledge or skills for performing the task within the organization. Besides, company can also outsource in order to minimize workload, attain financial economies, increase ability to focus on core competencies and strategic issues, access to technology and specialized expertise, ability to demand measurable and improved service levels, and achieve competitive advantage. The traditional outsourcing service emphasis on tactical benefits like cost reduction (for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed, and innovation in developing business applications, and access to new technologies and skills (Greer et al., 1999).

Banking operations by their nature are designed to satisfy clients demand for security of deposits, access to funds, payment facilities and information. Efficient delivery of these services relies on assemblage of various facilities, personnel mobilization and technology acquisition all of which require coordination in order to ensure process synthesis in service offering (Drury and Tayles, 2006).

The global trend of outsourcing is growing fast in terms of complexity and market whereas the growth of outsourcing in Ethiopia is at its infant stage. It is dominated by non-core functions like Security and Janitorial service (Meresea, 2007). The banking environment in Ethiopia has, for the past decades, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the banking sector of the country and have also encouraged private banks to enter and expand their operations in the industry. Despite these changes, currently, the banking industry in Ethiopia is characterized by operational inefficiency, little and insufficient competition and also can be distinguished by its market concentration towards the big government owned commercial bank (Lelissa, 2007 cited in Abera, 2012).

1.2 Background of the organization

Dashen bank is a privately owned company established in 1995 in accordance with the licensing and supervision of banking business Proclamation No. 84/1994 of the Ethiopia to undertake commercial banking activity. The bank obtained its license form the National Bank of Ethiopia on 20 September 1995 and started normal business activities on 1 January 1996. It operate through its head office in Addis Ababa and 58 area banks established within and outside Addis Ababa, 5 foreign exchange Bureau, 669 point of sale(POS) terminals and 55 automatic teller machines (ATM) installed at different places within and outside Addis Ababa(Annual report of the Bank,2009).

Dashen Bank is one among the major companies that uses the outsourcing service to benefit out of it and now it is currently expanding its branches aggressively reaching its branches more than 350. And it is currently diversify its services from traditional banking system to core banking, internet banking, mobile banking, etc. In spite of these diversifications and specializations, Dashen Bank is outsourcing some of its non-clerical functions to third parties. Almost all of its non-clerical works- like security, cleaning, gardening, and messaging, some driving, etc. services- are outsourced to other companies. The bank has outsourced some of its IT functions for domestic and international service providers mainly for maintenance and software development.

1.3 Statement of the problem

According to World Economic Forum (WEF, 2015), Ethiopian financial market development is one of the least developed in the world. At this time, almost all of our banks are in a fierce struggle in a few areas of banking operations. These areas include export financing, remittance inflow, and technological access. Outsourcing is a very crucial function in an organization because it directly affects the firm's operational activities. The use of outsourcing in Ethiopia is

very low with the exception of outsourcing some non-core functions like security, courier, maintenance, deriving and janitorial services. Dashen bank has practiced the outsourcing services for more than 5 years. Even though outsourcing results several benefits for organization it has also challenges, if the process is not managed in the proper way. In relation to this the banks face with different challenges.

The first problem is that outsourcing intangible products as security service, courier service and janitorial service is not as transparent, and it is difficult to measure the service like that of tangible products. As the result the bank couldn't properly measure the real cost of the outsourced service delivered by the service provider and a difficulty of controlling service quality as per the prior service level agreement.

According to Gilmer (1997), points out during implementation of outsourcing, jobs can be hand over from the service users to service providers performing the outsourced function, which may result in decreased salaries or benefits. Consequently, the outsourced staff may have less loyalty to the client than if they were employed directly by the institution and express disappointment with the resulting inadequate services which affect the business sectors in many regards. Similarly, big challenges with outsourcing emanate from the employees themselves as they are in doubt of loosing of jobs (Malhorta, 1997).

The second problem most service providers didn't realize the client's culture or personality, as result the services delivered by them didn't fit in the client's culture due to some of them only produce one set of service delivery system for all their clients in order to reduce the production costs (Siegel, 2000). On the same tradition, managers are required to regularly monitor, establish constant communication, and evaluate outsourced functions to be confident that they are beneficial to their organization. Hence, burdens of managers with transactional administrative tasks may increase once again (Guterl, 1996).

Moreover, negative attitude, resisting to new changes and morale problem are real challenges that caused ineffectiveness to the clients (Siegel, 2000). There is also evidence that outsourcing does not reduce costs as expected in some cases (Beaumont and Sohal, 2004; Gonzalez, 2005).When such problems pose complex risks, divert the intended desire of the client, and adversely affect the buyer's performance on core competencies. Based on this Dashen Bank has faced different problems as miss use of resources of the branch, theft, ineffective service delivery, ineffective communication with customer and staffs, lack of responsibility and motivation by those supplied staffs; which is resulted from negative attitude, resisting to new challenges and moral problem are the major challenges. By considering the above issues the

researcher tried to examine the challenges and benefits of outsourcing at Dashen bank on non-core activities (messenger, Security and cleaning Services) by raising research questions as stated below and providing answer to these questions.

1.4 Research Question

The thesis has aimed at addressing the following basic questions:

- What are the benefits Dashen bank gets from outsourcing non-core functions?
- What are the challenges encountered in carrying out outsourcing?

1.5 Objective of the Study

1.5.1 General objective of the study

The overall objective of this research is to assess the benefits and challenges of outsourcing business functions in Dashen Bank.

1.5.2 Specific Objectives of the Study

The study investigates the following specific objectives:

- to assess the benefits obtained as a result of outsourcing;
- to examine the challenges encountered in carrying out outsourcing.

1.6 Significance of the study

The practice of outsourcing in Ethiopia and awareness among the society is not well developed. The benefits and challenges out of it are not yet assessed in many organizations; especially in banking industry. The study tried to cover the actual experiences of outsourcing in Dashen Bank with an intention to examine the problems existing prior to outsourcing, identify the benefits and challenges after outsourcing, and lessons gained for future outsourcing initiatives.

It is expected that the findings will be beneficial to Dashen Bank. In addition, it provides the researcher an opportunity to gain deep knowledge in the concepts of outsourcing business functions. Furthermore, this research can serve as stepping stone for other researchers who want to explore about outsourcing in Ethiopia's business.

1.7 Scope of the study

The researcher believes that it would be appropriate to conduct the study in large scale. However, the limited time and other resources do not allow doing so. Therefore, this research focuses only on the following activities: Security service, Cleaning/Janitorial service, and Messenger /courier services in the case of Dashen bank. Hence, to make the study narrow and manageable the scope of the study delimited to selected branches and districts in Addis Ababa only. The data was gathered from senior managements and other permanent employees of banks.

1.8 Limitation of the study

One of the limitations of this research was lack of cooperation of some respondents to completely fill the questionnaires. The other limitation was the research sample did not incorporate all the outsourcing participants like the supplier and customers due to financial constraint. The study also focuses only on outsourced services of security services, courier service, and janitorial service. These make the research result may not fully show the extent of outsourcing practice in Dashen Bank. Lack of experience on such issue on the researcher side was another major difficulty in doing this research.

1.9 Operational Definition of Terms and Concepts

Business Process Outsourcing (BPO): A contractual arrangement transferring ongoing responsibility for a specific business function, such as payroll, to a third-party service provider. Often, companies implement business process outsourcing (BPO) to achieve cost reductions for work that is required but is not critical to maintaining a competitive advantage. Back office outsourcing includes internal business functions such as accounts receivable or purchasing; front office outsourcing includes customer-contact services such as help desk or marketing (Outsourcing Glossary of Terms, 2007).

Outsourcing: Financial institution's contract with a third party to provide services, systems, or support. Outsourcing can be provided on or off premises, in the same country or in a separate country (Outsourcing Glossary of Terms, 2007).

Benefits of outsourcing: Expected benefits of outsourcing may include realizing the same or better service at a lower overall cost, increased flexibility and/or quality, access to the latest technology and best talent, and the ability to re-focus scarce resources onto core functions (Tibor, 2006).

Challenges of outsourcing: According to Fan et al. (2011) the major challenges to outsourcing activities included loss of managerial control over outsourced operations, quality problems, threat to security and confidentiality, hidden costs and reallocation of existing teams. With the issue of loss of control over the outsourced operations they indicated that special skills are required in the management of systems. These skills include the skills to manage people and processes, management of contracts and negotiation skills.

1.10 Organization of the Paper

The research report comprised of five chapters. The first chapter would focuses on introductory aspects like background of the study and the organization, statement of the problem, research questions, Objective of the study, Scope of the study, significance and limitations of the study.

Chapter two present the literature review and conceptual framework, which served as a basis for understanding the subject matter. Chapter three focus on the research design and methodology of the study. Chapter four concentrated with the presentation and analysis of data obtained from responses. In chapter five conclusion and recommendations are made based on the findings of the study and suggestion for future study also made.

CHAPTER 2

REVIEW OF RELATED LITERATURE

2.1 The Concepts, Meaning, Nature and Trends of outsourcing

2.1.1 The meaning and Concept of outsourcing

Nowadays the business environment is really challenging in order to stay competitive in the global market. The companies are striving to find and develop the best strategies to achieve efficiency and leverage their capabilities. One viable solution for them is outsourcing, which currently is considered to be one of the best ways of reshaping management.

Outsourcing is a combination of two words which is “out” and “sourcing” (Power *etal.*,2009). Power et al. (2009) went on to describe sourcing as the process whereby an entity transfers its work, responsibilities and also its right to another entity. Researchers defined outsourcing as predetermined means of externally obtaining goods or services previously provided by the organization itself (Kakabadse and Kakabadse, 2000). Another definition was given by Belcourt as a contractual relationship for the provision of business services by an external provider (2006). Based on these affirmations, the outsourcing strategy supposes contracting another company to do some of the activities that were done in house in the first place.

Outsourcing can be separated into internal and external types depending on the level of control over performance of outsourced function. Internal outsourcing is the reallocation of functions within the business system for saving control over its performance and external outsourcing is the delegation of performance of separate or mutually related functions to external outsourcer (Vashista, 2009).

In reference to the work of Prince et al., (2014); Jennings (1997); Smith (2007); Quinn (2000), and McIvor (2005), the basic premise of the concept of outsourcing is a specialist organization can perform a particular service more efficiently than what internal operation can achieve because a specialist organization has an inherent advantage in producing and delivering a service. Superior technology, management skills, or economic of scale may contribute this

perception. And the concept of outsourcing non-core business functions is a complex issue, consisting of numerous activities and sub-activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage their outsource services.

The key to any outsourcing endeavor is to ensure that the process helps fulfill the institution's mission and long-term goals and objectives. Financial institutions require a number of support services in order to achieve their primary missions. If these institutions feel that they are not in a position to maintain these support services to the expectations of the community, it is advisable to outsource these services to outside experts who are capable of providing high levels of services (Jefferies, 1996).

Outsourcing for any organization can be a very demanding task and difficult process in both implementation and overall acceptance. The level of complexity due to years of tradition, ownership stability, management philosophy, structured norms and cultures creating more resistance to change. It is believed that outsourcing is natural processes for business operations, but institutions have significant differences due to the effects of outsourcing in areas of motivation, performance and evaluation (Bartem and Sherry, 2001).

The growing use of outsourcing in business sectors throughout the world reflects a general acceptance by institution authority's that it will reduce costs while continuing to provide essential services effectively and efficiently (Goldstein, 1993).

2.1.2 The nature and Trends of outsourcing

In order to gather the trends of outsourcing in Ethiopia there is lack of research works. However according to one master's thesis research that was done by Meresea, (2007) on outsourcing practice in Ethiopia, the use of outsourcing in Ethiopia is very low and limited with the exception of the use of some Non-core functions like Security service and Janitorial service. The most outsourced business functions listed are maintenance service, janitorial service, and security service and information technology. Conversely, Accounting and Administration services are mentioned less outsourced by Ethiopian organization. The main reasons for not outsourcing are organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

2.2 Driving Forces of Outsourcing

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments (Bhattacharya, 2003) and also the technical

reasons for outsourcing are quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale. Among the tactical drivers the most prominent ones are shortage of skilled workers and cost-reduction opportunities. Strategic reasons include refocus on innovation and core-competencies. According to Chamberland, D. (2003), drivers of outsourcing have been classified into three categories: organizational, improvement, financial and cost drivers as discussed below.

2.2.1 Organizational drivers

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging/pulling emerging technologies and achieving higher stakeholder value. Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer.

Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries.

2.2.2 Improvement drivers

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with superior providers.

Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement.

An institution when realizes that its in-house skill-set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities.

2.2.3 Financial and cost drivers

The objectives of this initiative are to reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business

processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing.

Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

2.3 The Process of Outsourcing

The typical process and phases of outsourcing ranging from decisions to continuous management and performance evaluation along with the life cycle of the relationship between the host institution and the business process vendor, Brown and Wilson(2005), Gonalgo (2005). Burt et al (2010) has also stated that the starting points that most companies used in conducting the strategic outsourcing analysis are to identify the major strength of the company and build on them. It is essential to conduct a competitive analysis before commencing the outsourcing analysis. This will allow the firm to appreciate its position, relative to the market, industry and competitors. (Charles, et al.,2013). The host institution determines the objectives, scope, and feasibility of the outsourcing concept before furtherance in this initiative. In addition, the total time, budget and necessary resources are estimated.

In the next phase on scoping, the baselines and service levels expected from the vendors are established. Further clear delineation is agreed on the functions that are to be outsourced and the functions that will remain in-house. A request for proposal (RFP) is drafted at this stage by the host institution. Responses of the RFP are analyzed and vendors are qualified.

The next phase involves negotiation. Here, the host institution can develop a request for quotation (RFQ) wherein the host institution attempts to understand the pricing model of the qualified vendor. The most common pricing models used are cost per full time equivalent, time and material, price per unit, volume-based pricing, managed service fee, no cure – no pay, fixed price, etc. (Bartell,1998).

The host institution then examines the services provided by the vendor during the pilot phase to assess the competence of the vendor to execute the proposed service. For business processes its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005). This marks the end of the contractual phase and marks the beginning of the post-contractual phase.

Management of end-of-life arrangements is executed in the completion phase. Contracts that come up for renewal are assessed in this phase. Buyer makes vital decisions on extension of the contract, amicable/friendly separation with the vendor to consider engagement with another vendor or executing the function in-house. The decision to outsource has associated risk that can be mitigated by adequate planning (Aron, 2005).

The implementation phase marks the transition of the in-house process to the outsourced vendor. This often involves a requirements assessment sub-phase where the process is studied in detail by the vendor. The vendor can re-engineer the process to optimize the operations. After successful transition the phase of continuous monitoring and management is carried out in the management phase, the client now has external organizations performing the functions and it has to seamlessly integrate its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005). This marks the end of the contractual phase and the beginning of the post-contractual phase.

2.4 Benefits of outsourcing

Outsourcing allows for organizations to concentrate on its core competencies. Outsourcing secondary activities allows the institution to focus more on core functions and to worry less about the other non-core business operations. Kennedy (2002) argues that the core reasons for outsourcing include enhanced service, staffing constraints, and budget constraints, to access technology. Similarly, Jefferies (1996) asserts that outsourcing, when properly planned and controlled, is expected to produce several benefits, such as reduced costs, improved service quality, and increased efficiency and innovation. In other words, outsourcing results in improving the strategic triangle of an organization; quality, cost and time. Proponents of outsourcing recognize that the private sector vendors provide services more efficiently and at lower cost than the public sector (Jefferies, 1996). This can results in two ways: added expertise and economies of scale.

There are many benefits that can be obtained to an organization as a result of outsourcing, however, these depend on whether the company goes about the outsourcing project in the appropriate manner and if they are willing to put the time and effort into helping their staff overcome the problems they may encounter as their jobs change and evolve. Outsourcing has helped to open up the global market as outsourcing organizations take advantage of regional labor markets and reduce operating costs (Selamawit, 2015).

According to O'Donnell (1998) the benefits can be separated into two distinct areas obvious benefits and hidden benefits. The obvious ones are those that hit the bottom line of the

company's financial sheet at the end of the month. These can include but are not limited to; lower prices, better quality goods and/or services, and a wider selection of products and services. Hidden benefits may include suppliers providing technical skills and ideas that might not have been able to develop in-house, and extending the scope of customer services. Probably the most important hidden benefit is that because as companies become more profitable and flexible 'this protects many existing jobs and allows companies to invest additional money in the next generation technologies and business ideas that will create the jobs of the future'. It can also help to eliminate the barriers that were created between different departments within an organization and allows for the merging of estranged departments. Specifically Outsourcing is beneficial in the following ways. The first one is minimizing cost. This is the lowering of the overall cost of the service to the business. This involves the score defining quality levels, repulsing, renegotiations, cost restructuring, access to lower cost economies through off showing cold labor arbitrage Sabiti (2003) says that the organization that outsources is cutting administration cost of maintaining or doing the activity in house. The overriding factor in outsourcing decision is cost cutting, but whereas this may make business sense in the beginning, in some cases it could bring complications and put the whole exercise at a high risk if all concerns are not adequately assessed. This means that the outsourcing organization should not only look at the costs being low but also consider the outcomes of process of outsourcing at the end of everything to the organization. Manzi (2004), states that the most common economic factor that influences the decision is the need to reduce costs. Where the benefits analysis has been carried out and has been established that it is most economical to outsource rather than continue to operate a given function looks forward to making profits in business.

Kulumba (2005), states that outsourcing is a popular phenomenon with managers because they believe that outsourcing vendors are inherently more efficient due to economies of scale. The outsourcing organization benefit from getting the services from the provider at a reduced cost since it is provided on a large scale and usually for a reasonable time if it is good work. The other one is specialization. Lysons and Gillingham (2003), say that, Outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise. In addition, outsourcing provides the organization access to innovation. There are opportunities to have access to capabilities of suppliers into the products and services of the customer organization rather than attempt to replicate the capabilities of a supply network.

There are two major reasons for outsourcing. These are to maintain competitive advantage, and to focus on core/noncore activities. Maintenance of Competitive Advantage: Domberger (1998) sees two strategic issues related to an outsourcing decision: where the organization's boundaries lie, and what sort of contracts should be in place. Domberger (1998) cites several examples of companies outsourcing to sharpen their focus on their source of competitive advantage.

Formidable barriers against competition can be achieved by organizations focusing on what they do best, and outsourcing to suppliers who can in turn focus on developing their own specializations. This enables each activity to be conducted in a "state of the art" manner. To achieve this internally would be difficult to manage. Langfield-Smith et al. (2001) cite a manager who comments: "you really have to understand what your core competencies are".

Related to the idea of competitive advantage is the issue of core activities. In determining which activities should be outsourced, it is widely suggested that core activities should be insourced and non-core activities outsourced. Non-core activities are peripheral to a company's competitive advantage (Quinn and Himler, 1994). Bromage (2000) notes: "The reason for outsourcing becoming so popular may well be the increasing recognition that activities which are not core competencies are often not cost effective" Like strategy and competitive advantage, what is meant by "core" can be ambiguous and confusing. K&K (2000) claim "Defining what core competency is for any one organization is fraught with many ambiguities". To aid the identification of core activities K&K (2000) refer to Alexander and Young's (1996) four characteristics generally associated with a core activity. A core activity is traditionally performed in house, it is critical to business performance, it creates current or potential competitive advantage, and it will drive further growth innovation and rejuvenation.

Cited from Charles, et al.2013. According Lyson (2007), there are numerous benefits or advantages that firms can derive from outsourcing. Some of these benefits are outlined as; lower wages, more resources for core business processes, lower regulatory costs, improve business focus, access to world class capabilities, access to technical skills and quality human resource, accelerated re-engineering benefits, shared risks, improved performance and skilled manpower at affordable prices.

Belcourt (2006), believes that outsourcing is the best solution when an organization needs experts but it cannot employ or train them. Many organizations are looking for financial saves, hiring experts or technologies; so they outsource part of their processes. Consequently, some believe that outsourcing is a way to keep or increase organizational advantages; and some consider it as one of the main causes of employees' job insecurity.

In past, organizations apparently outsourced their side activities; today, we are observing an increase in outsourcing scale. Nowadays, organizations outsource any process from technology management to human resource management (Belcourt, 2006).

2.5 Challenges of Outsourcing

According to Stephenson (2007), there are many challenges associated with outsourcing or contracting out a business. Some of these are as follows: lack of proper planning, failure to conduct outsourcing exercise, loss of control, poor supplier selection, and lack of understanding the core departments from none-core, high cost, quality problems and chance to nurture in-house talent is lost.

2.6 Literature Gap

In general, the above reviewed articles and research papers have the following major gap: failure to make specific explanation about the benefits and challenges of security, cleaning and messenger services. All the things explained in the literature review were regarding the general benefits and challenges of outsourcing.

2.7Conceptual framework

The conceptual framework proposes that outsourcing practice will have an effect on organization.

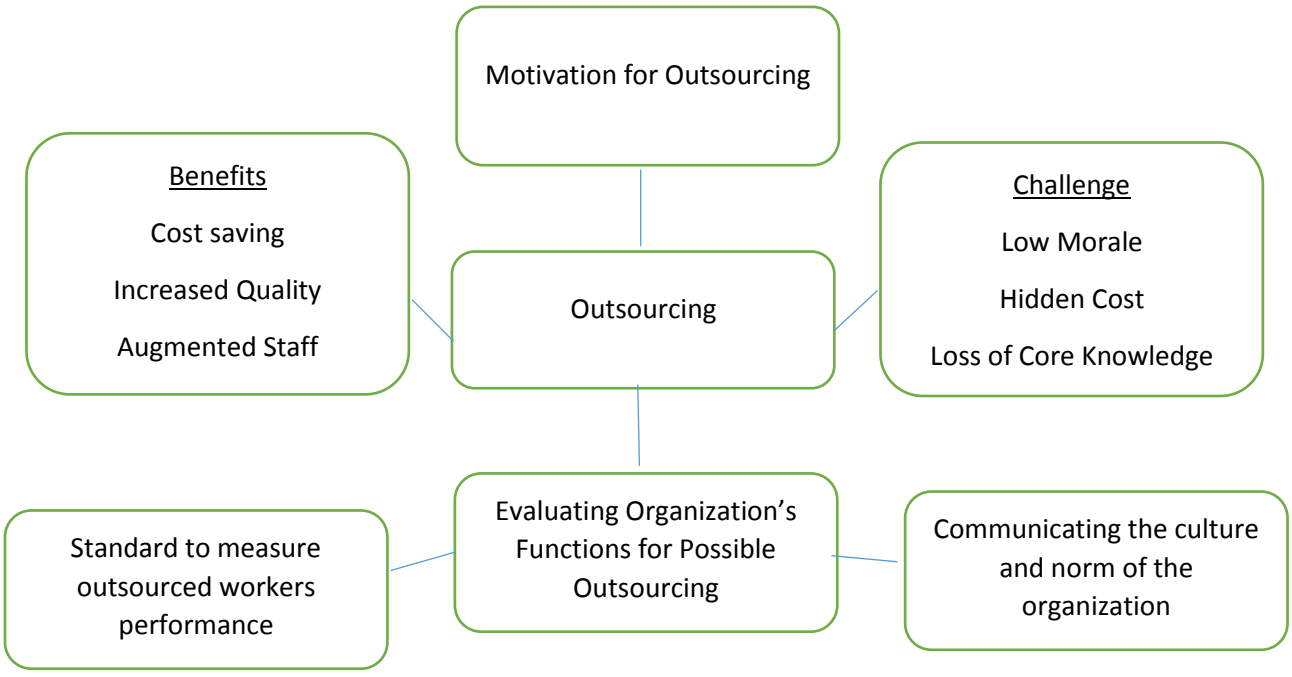

Fig 1. Conceptual Model

Source: adapted from Source: *Betelhem Mekuria (2017)*

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

Research as defined by many authors (Bashir, Afzal & Azeem, 2008; Creswell, 2003; McMillan and Schumacher, 2006; and Best, 2006) is the systematic application of scientific method to the problem under consideration. Research methodology therefore presents the overall framework on how research results may be achieved through data collection and analysis. This chapter deals with the methods that have been used in the research to come up with the findings of the study. Thus, it introduces the research approach, the research design, the research population and sample of the study, data sources and types, data collection procedures and ethical consideration.

3.1 Research Design

A research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information and provides a framework or plan of action for the research (Zikmund, 2003). It is defined as a general framework of how the researcher intends to go about answering the research questions. Cooper and Schindler assert that research design is a blueprint for collection, measurement and analysis of data. (2006).

A descriptive research design is used for the study. The reason behind using descriptive research design is because the researcher is interested in assessing the existing outsourcing practices of Dashen Bank along with its challenges and benefits.

Descriptive research is mainly done when a researcher wants to gain a better understanding of a topic. According to Cooper and Schindler descriptive research design enables the researcher to

narrate how various behaviors and events occur (2006). It describes a phenomena occurring in a population without influencing the subjects been studied.

3.2 Research Approach

According to Silverman, before conducting research it is important clearly to set out the research approach (2005). In social research like this study, quantitative, qualitative and mixed research approaches are the basic kinds of research approach. They differ in many aspects and depend on a number of things, such as research questions, research paradigms and methods. Most importantly, they have to serve the aims of the research. This research adopted a mixed research approach with big emphasis given to quantitative approach. According to Silverman (2001), quantification gives greater confidence in the accuracy of conclusions derived from qualitative data; and it gives the reader a chance to think through the data on their own to cap on the researcher's findings. This approach has been chosen because the researcher wanted to support the quantitative data by the information obtained through qualitative data. A mixed approach design is useful when either the quantitative or qualitative approach by itself is inadequate to best understand a research problem as well as when the strengths of both quantitative and qualitative research can provide the best understanding (Creswell, 2007).

3.3 Population and Sample of the study

3.3.1 Population of the Study

Target population is defined as the entire aggregation of respondents that meet the designated set of criteria (Kothari, 2004). The population of the study includes permanent employees of the Dashen Bank at Addis Ababa. The total population of the study is 1931.The study organization was selected due to their convenience to the researcher. This convenience was related to data availability and familiarity of this organization for the researcher.

3.3.2 Sampling Technique and Sample Size Determination

Both stratified random and purposive sampling techniques are used to select respondents from the target population. Therefore, the strata for this study were the management, supervisors and operation workers in different branches. The sampling technique that the researcher was employed to gather data was purposive sampling technique. Purposeful sampling is used so that individuals are selected because they have experienced the central phenomenon (Creswell, 2007). Hence, the study subjects have been chosen purposefully from each level.

For the sample size determination, sampling error range is often expressed in percentage points usually ±5 percent (Singh et al., 2014). However, for continuous data, 3% margin of error is

acceptable (Krejcie& Morgan, 1970). As the study used five-point Likert scale to measure a continuous variable its sampling error is 3%. There is always a probability that the sample obtain by the researcher does not represent the true population value (Singhet al., 2014).

The degree of variability in the attributes being investigated refers to the distribution of attributes in the population (Singhet al., 2014). The variables with more homogeneous population, the smaller the sample size required. If the more heterogeneous population, the larger the sample size required to obtain a given level of precision. Because a proportion of 0.5 indicates the maximum variability in a population, it is often used in determining a more conservative sample size, that is, the sample size may be larger than if the true variability of the population attribute was used. Hence, the study used a proportion of 50% level of variability.

Cochran's sample size formula for continuous data is presented as follows:

$$\text{No} = \frac{(t)^2 * (s)^2}{(d)^2}$$

Where,

t = the alpha level of 0.05 indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error.

s = estimate of standard deviation in the population

d = acceptable margin of error for mean being estimated

Therefore:

t= value for selected alpha level of .025 in each tail is 1.96.

s=1.25 for 5 point scale calculated by using 5 [inclusive range of scale] divided by 4 [number of standard deviations that include almost all (approximately 98%) of the possible values in the range].

d=number of points on primary scale * acceptable margin of error points on primary scale = 5; acceptable margin of error = .03

d=5*0.03=0.15

$$\text{n} = \frac{(1.96)^2 * (1.25)^2}{(0.15)^2} \sim 267$$

For a population of 1931, the required sample size is 267. Since this sample size is above 5% of the population 1931*.05~97 the study applied Cochran's (1977) correction formula to calculate the final sample size. These calculations are as follows:

$$\text{No}_f = \frac{n}{1+\frac{n}{population}} = \frac{267}{1+\frac{267}{1931}} = 235$$

Where:

- Population size = 1931
- n= required return sample size according to Cochran's formula= 267.
- No= required return sample size because sample > 5% of population.

Therefore, the study was required to gather information from 235 employees. This sample was deemed good representation of the populations since the sample size is greater than 10 percent of the target population.

3.4 Instrumentation and Measurement

In an attempt to obtain first-hand information, the data was collected from samples through questionnaires and interview. The rest of the data for this research was obtained from a body of secondary sources. To get secondary data the researcher has collected information from relevant documents related to the study subject and the questionnaire.

3.4.1. Questionnaire

Closed-ended questionnaires were prepared and administer to gather primary data from the sample of the study. This instrument is preferred because it enables to secure information at a time. The questionnaires were prepared in English because the target area of the population is professional employees who understand the subject matter. Quantitative data was gathered from the respondents using five point Likert scale questionnaires designed by the researcher for self-administration. The questionnaires were designed based on the conceptual framework and the research questions to investigate the challenges and benefits of outsourcing practices in the case of Dashen Bank. For quantitative data, the respondents were asked to indicate their level of agreement and disagreement using a five-point Likert scale (1= strongly disagree 2= disagree, 3= neutral 4=agree and 5= strongly agree) about the challenges and benefits of outsourcing practices.

3.4.2. Interview

The study utilized primary data through in-depth interview. Unstructured interview questionnaires were used to obtain detailed information from respondents. The researcher believes that unstructured interview is useful technique for descriptive research to clarify concepts, solve problems and generates alternatives. Using unstructured interview questionnaire the researcher attempt to gain more information about the participant's point of views.

In depth interview of purposely selected staff at Dashen Bank was carried out as a methodological approach in the study. The interview helped the respondents to express their feelings freely. It also helped the researcher to ask for clarification whenever there was any answer that was not explained clearly. Thus, questions that help to get relevant information were developed.

3.4.3 Document Review

In the document review, the researcher collected the necessary information from annual reports, websites of the bank and research papers.

3.5 Data Sources, Types and Collection Procedures

The study relied on both primary and secondary sources of data. Primary data was collected from respondents using a structured questionnaire and interview. Secondary data was collected from relevant documents related to the study subject that is annual reports, websites of the bank and research papers to get information on theoretical frame work of the study.

Before collecting the data the researcher have taken the formal letter from Addis Ababa University department of Logistics to Dashen Bank, to get the permission of collecting the necessary information from the research participants. Then the researcher and the data collectors have approached the respondents by introducing themselves briefly and explain the objective of the study. Finally, the researcher and the data collectors distributed questionnaires to the respondents and collected them when the respondents finish.

3.6 Ethical Consideration

The researcher ensured the willingness of the respondent for the interview and to fill questionnaire before starting data collection and never enforce any one to provide feedback; however, the researcher tried to approach systematically and convince them in order to get their proper feedback. Only volunteered respondents were contacted and fill questionnaire, and interviewed. The researcher explained the objectives of the research for the respondents that the feedback of the questionnaire and interview from them would only be used for the research

purpose and can never be used as a tool for corrective action. Finally, the researcher assured the confidentiality of the feedback and would not disclose their identity after collecting the required feedback.

3.7 Data Analysis

After collecting and sorting the relevant data using data collection tools, quantitative responses were sorted, coded, and computed using the Statistical Package for Social Sciences (SPSS), version 20. The analyzed data was presented using tables.

3.8 Validity and Reliability

Validity

According to Mugenda and Mugenda (1999), validity of research tool has three components. The first is construct validity which deals with the consistency of the questions with the responses intended by the researcher. This validity is assured by structuring the questionnaire according to the specific objectives. To ensure internal validity of the questionnaire, the researcher also gave the draft questionnaire to the supervisors for review and rearranging the questions. For assuring the data that was collected is valid, enough orientation about the data collection process was given to the data collectors. In addition to that, the process of the data collection was supervised by the researcher. The accuracy of the gathered data was checked through triangulation in order to check if there are deviations in the information given by the respondents.

Reliability

According to Toke *et al*., (2012), the aim of reliability analysis is to find the extent to which a measurement procedure produced the same result if the process is repeated over and over again under the same conditions. The most common technique used in the literature to assess the scale's reliability and stability is use of the Chronbach Alpha Statistics.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION and DISCUSSION

This chapter deals with data presentation, analysis and interpretation. The data are presented and analyzed based on data collected through structured questionnaires, interview and secondary data.

4.1 Response rate

Table 4.1 Responses gathered from staffs of the bank

Questionnaires	Frequency	Percent
Questionnaires that are filled	190	81%
Questionnaires that are not filled	45	19%

Source: Survey Result (2018)

The rate is satisfactory according to the argument of Cooper and Schindler (2003) that sets a response rate of 30% to 80% as adequate.

4.2 Reliability Test of the Instruments

Table 4.2 Cronbach's alpha coefficient

Cronbach's Alpha	No of Items
0.954	42

Source: Survey Result (2018)

From the above table the data is reliable as the alpha is greater than 0.7.George and Mallery suggested that Cronbach's alpha coefficient greater than 7.0 is acceptable. (2003)

4.3 Respondent's Demographic Profile

In the following table, the demographic information of respondents is presented. These include gender, age, educational level, position and work experience of the respondents.

Table 4:3 Demographic Data

DEMOGRAPHY	**CHARACTERISTICS**	**Frequency**	**Frequency %**
GENDER	Female	69	36.30%
	Male	121	63.70%
	N	190	100.00%
AGE	Below 30	76	40.00%
	30 - 45 years	96	50.50%
	46 - 55 years		
	Above 55	18	9.50%
	N	190	100.00%
EDUCATIONAL QUALIFICATION	Diploma	2	1.10%
	Bachelor's degree	153	80.50%
	Master's degree	35	18.40%
	Above		
	Total	190	100.00%
LENGTH OF YEARS WORKED	1-3 year	38	20.00%
	4- 6 years	106	55.80%
	7 - 10 years	26	13.70%
	More than 10 years	20	10.50%
	Total	190	100.00%
JOB POSITION	Managerial	34	17.90%

	Supervisor	94	49.50%
	Operational Worker	59	31.10%
	Other	3	1.60%
	Total	190	100.00%

Source: Survey Result (2018)

Gender frequency of the respondents shows that the majority (63.7%) of the respondents are male. Regarding their age, 50.5 of the respondents falls with in the age category between from 31 up to 45. The data also indicates the educational level of the respondents. As the result shows, most of the respondents (80.5%) are degree holders, 1.1% have diploma and 18.4% are in Masters Level. The position of the respondents in the organizations indicates that most of the respondents are supervisor (49.5%) and operation workers (31.1%). The rest are managers (17.9%) and other (1.6%). The respondents have different work experience and most of them (55.8%) have four and more than four years' experience.

4.4 Employees evaluation about the process of outsourcing the services

Table 4.4 Summaries of respondents 'evaluation the way of outsourcing the services'

Items	**Frequency and Percentage (%)**					**Total**	**Mean**
	5	**4**	**3**	**2**	**1**		
The Bank has Standards to Measure the Results and Quality of Performance of Outsourced Workers	19 (10)	37 (19.5)	110 (57.9)	20 (10.5)	4 (2.1)	190 (100)	3.25
Does Applying Outsourcing Increases the Bank's Competitiveness	1 (0.5)	25 (13.2)	101 (53.2)	61 (32.0)	2 (1.1)	190 (100)	2.8
The Bank's Formal Rules and Procedures to Communicate The Cultures of The Bank	1 (.50)	99 (52.1)	17 (8.9)	71 (37.4)	2 (1.1)	190 100	3.14
Outsourced workers effectively know their duties and responsibilities	1 (0.5)	79 (41.6)	55 (28.9)	55 (28.9)	0 0	190 100	3.14
Outsourced workers respect the cultures and norms of the bank	2 (1.1)	76 (40.0)	54 (28.4)	56 (29.5)	2 (1.1)	190 100	3.11

Aggregated Mean							3.088

Source: Survey Result, 2018

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

The table 4.4 above shows that 29.5% and 41.6% of the respondents agree with the service quality and knowledge of the service providers about their duties and responsibilities. Thus, it is sign for the weakness of the service providers because the majority fails to agree. In addition the study shows that 32% and 37.4% of the respondents disagree in the questions of apply outsourcing strategy increase the bank's attractiveness and have formal rules and procedures to communicate the cultures of the bank.

This indicate that the services delivered by the agent are not somehow good quality performance, they do not know their duties and responsibilities very well and the bank and has no formal rules and procedures to communicate the norms and cultures of the bank. The interview also assured that the bank does not have risk assessment strategy and way of communication organizational cultures. This reply shows that the bank has to do a lot to improve such weaknesses.

4.5 Employees responses on challenges/problems arise due to outsourcing those activities

Table 4.5 Summary of evaluating the overall outsourcing practices

Items	**Frequency and Percentage (%)**					**Total**	**Mean**
	5	**4**	**3**	**2**	**1**		
there are ethical problems of those of supplied staffs	1 0.5	97 51.1	72 37.9	19 10	1 0.5	190 100	3.41
poor handling of the bank's resource and high maintenance cost are occurred	2 1.1	79 41.6	73 38.4	35 18.4	1 0.5	190 100	3.24
there are high problem of respecting professional employees of the bank	1 0.5	38 20	75 39.5	74 38.9	2 1.1	190 100	2.80
inexperienced and incompetent workers are provided	31 16.3	74 38.9	32 16.8	36 18.9	17 8.9	190 100	3.35

high misalignment between the bank service requirement and capability of service provider	4 2.1	71 37.4	59 31.1	55 28.9	1 0.5	190 100	3.12
there are problem of controlling outsourced staffs during working hours	16 8.4	39 20.5	75 39.5	60 31.6		190 100	3.06
consistency and quality of services are delivered by outsourced staffs	3 1.6	37 19.5	113 59.5	36 18.9	1 0.5	190 100	3.03
Aggregated Mean							3.144

Source: Survey Result, 2018

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

The Table 4.5 above illustrates that majority of the respondents agrees with the poor handling of resource and there are ethical problem in outsourced employees. There are also less consistency and quality of services delivering, there is high misalignment between the bank service requirement and capacity of service provider.

The aggregated mean (x=3.144) indicated that the response of the study participants inclined that staffs that are outsourced has quality problem regarding to work ethics, poor handling of resources, respect, experience, capability and consistency. From this we can conclude that there are big challenges with respect to those issues. Especially, the mean (2.80) indicated that outsourced staffs has big problem regarding to showing proper respect to other professional staffs of the bank.

4.6 Summary of respondents' about Security service

Table 4.6 Summary of respondents' evaluation about Security service

Items	**Frequency and Percentage (%)**					**Total**	**Mean**
	5	**4**	**3**	**2**	**1**		
outsourcing of security service saves time and cost	1 8.4	78 41.1	93 48.9	2 1.1	1 0.5	190 100	3.56
outsourcing security service allows to focus on core business function	18 9.5	66 34.7	100 52.6	6 3.2		190 100	3.51

outsourcing security service improves service quality	2 1.1	51 26.8	64 33.7	72 37.9	1 0.5	190 100	2.90
outsourcing security service reduces risk	2 1.1	75 39.5	37 19.5	73 38.4	3 1.6	190 100	3.00
Outsourcing security service reduces budget allocation	1 0.5	109 57.4	41 21.6	39 20.5	0	190 100	3.38
Outsourcing security service lowers investment requirement	3 1.6	57 30	76 40	54 28.4	0	190 100	3.05
Outsourcing security service brings lack of internal expertise	20 10.5	53 27.9	100 52.6	16 8.4	1 0.5	190 100	3.39
Outsourcing security service increases flexibility	1 0.5	75 39.5	56 29.5	41 21.6	17 8.9	190 100	3.01
Outsourcing security service acquires innovative ideas/new technology	0	63 33.2	71 37.4	53 27.9	3 1.6	190 100	3.02
Outsourcing security service changes fixed cost into variable costs	0 0	39 20.5	127 66.8	23 12.1	1 0.5	190 100	3.07
Aggregated Mean							3.189

Source: Survey Result, 2018

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

In Table 4.6 above, about nearly half (50%) of the respondents are agreed that security services save time and cost, allow to focus on core business function and improves service quality. About 39.5% agree that security service reduces risk and 38.4% disagree, the majority (57.4%) said it reduce budget allocation. As s shown in the table above, 30% of the respondents are agreed that the services lower investment requirement. 40%, and 28.4% of them said that they are neutral and disagree respectively. Some 38.4% (10.5%% &27.9) of them agreed that the service brings lack of internal expertise to the bank and 52.6%, 8.45% and 0.5% of them said that they are neutral, disagreed and strangely disagreed about the issue. The majority 39.5% agreed that the service increases flexibility however 21.6% and 29.5% of them disagreed and neutral respectively.

The aggregated mean (3.189) shows that the response of most respondents inclined to agree. This implies that outsourcing these above non-core business functions are in good position or advantageous. The mean (x=3.51) indicates that outsourcing security service allows to focus on core business function. This also agrees with the findings of Lysons and Gillingham (2003). In the finding of this study it is showed that outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise. However, 66.8% of the respondents are indifferent with outsourcing security service changes fixed cost into variable. From this we can infer that outsourcing security services are less important in changing fixed cost into variable. In addition, the mean (x=2.90) indicates that the respondents answer tended to disagree. This meant that outsourcing security service did not improve the service quality of the bank.

According to Bhattacharya (2003), Financial and cost drivers reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. According to Bhattacharya, other benefits sought by institutions are cost reduction with enhanced performance. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

Security service outsourcing reduces budget costs which are allocated to recruitment, training and development costs and the like. We can say that outsourcing security services are advantageous to the profitability of the bank.

4.7 Employees response on cleaning services

Table 4.7 Summary of respondents' evaluation about outsourced cleaning services

Items	**Frequency and Percentage (%)**					**Total**	**Mean**
	5	**4**	**3**	**2**	**1**		
Outsourcing cleaning service saves time and cost	20 10.5	96 50.5	38 20	36 18.9	0 0	190 100	3.53
Outsourcing cleaning	2	76	57	55	0	190	3.13

service allows to focus on core business functions	1.1	40	30	28.9	0	100	
Outsourcing cleaning service improves service quality	1 0.5	62 32.6	39 20.5	86 45.3	2 1.1	190 100	2.86
Outsourcing cleaning service reduces risk	19 10	59 31.1	20 10.5	90 47.4	2 1.1	190 100	3.02
Outsourcing cleaning service reduces budget allocation	20 10.5	89 46.8	58 30.5	23 12.1	0 0	190 100	3.56
Outsourcing cleaning service lowers investment requirement	1 0.5	79 41.6	88 46.3	22 11.6	0 0	190 100	3.31
Outsourcing cleaning service brings lack of internal expertise	2 1.1	88 46.3	60 31.6	39 20.5	1 0.5	190 100	3.27
Outsourcing cleaning service increases flexibility	1 0.5	77 40.5	57 30	38 20	17 8.9	190 100	3.04
Outsourcing cleaning service acquires innovative ideas/new technology	0 0	42 22.1	70 36.8	60 31.6	18 9.5	190 100	2.72
Outsourcing cleaning service change fixed cost into variable costs	19 10	23 12.1	95 50	52 27.4	1 0.5	190 100	3.04
Aggregated Mean							3.148

Source: Survey Result, 2018

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

As the results of the study indicates, the majority respondents do agreed that outsourced cleaning services are beneficial in saving time and cost; and to focus on core business functions. While nearly 46% 0f the respondents disagreed that outsourcing the cleaning services improves service quality and reduce risk and whereas about 32% of them agreed about the issues. Majority (46.8%) responded that outsourcing cleaning services reduced budget allocations, lower investment cost and bring lack of internal expertise. More of the respondents gave different responses regarding outsourcing the services increases flexibility. As indicated in the table, 40.5% indicates that the majority of the respondents agreed that outsourcing the services increases flexibility of the bank where as 20% of the respondent almost disagreed and 30% of them felt neutral about the issue. Half of the respondents turn out to be neutral while 27.4% of them disagree that outsourcing cleaning services change fixed cost into variable costs.

The aggregated mean (3.148) shows that most respondents answer circulates around neutral. But, the mean (x=3.53) indicates that most respondents mostly agree that outsourcing cleaning service saves time and cost. This agrees with the findings of (Jefferies, 1996). According to the findings he emphasizes that outsourcing, when properly planned and controlled, is expected to produce several benefits, such as reduced costs. Another study also reveals that one of the benefits or advantages that firms can derive from outsourcing is lowering regulatory costs. (Lyson, 2007)

However, the mean (x=2.86) and (x=2.72) indicate that outsourcing cleaning service did not improve the service quality of the bank and it has gaps in acquiring innovative ideas/new technology.

4.8 Employees Response on Messenger Services

Table 4.8 Summary of employees' evaluation regarding outsourced messenger services

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
outsourcing messenger service save time and cost	17 8.9	74 38.9	94 49.5	5 2.6	0 0	190 100	3.54
outsourcing messenger service allow to focus on core business function	1 0.5	88 46.3	62 32.6	39 20.5	0 0	190 100	3.27
outsourcing messenger service improves service quality	18 9.5	24 12.6	90 47.4	56 29.5	2 1.1	190 100	3.00
outsourcing courier service reduce risk	1 0.5	38 20	37 19.5	112 58.9	2 1.1	190 100	2.60
outsourcing courier service reduce budget allocation	19 10	88 46.3	27 14.2	56 29.5	0 0	190 100	3.37

outsourcing courier service lower investment requirement	19 10	61 32.1	54 28.4	56 29.5	0 0	190 100	3.23
outsourcing courier service brings lack of internal expertise	3 1.6	54 28.4	57 30	75 39.5	1 0.5	190 100	2.91
outsourcing courier service increase flexibility	16 8.4	68 35.8	67 35.3	23 12.1	16 8.4	190 100	3.24
outsourcing courier service acquire innovative ideas/new technology	0 0	16 8.4	128 67.4	25 13.2	21 11.1	190 100	2.73
outsourcing courier service change fixed cost into variable costs	0 0	41 21.6	85 44.7	45 23.7	19 10	190 100	2.78
Aggregated Mean							3.067

Source: Survey Result, 2018

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

The above table shows that the majority the respondents agree with outsourcing messenger services allow to focus on core business function, improves service quality, reduce budget allocations and investment requirements, and increase flexibility. On the other hand (30%) of the respondents rated as outsourcing messenger services brings lack of internal expertise while 40% of them disagreed. And (58.9%) of the respondent disagreed that outsourcing the services reduce risk.

The overall messenger outsourcing of the organization is average as the aggregated mean (3.067) indicates in the above table. The mean (x=3.54) indicates that outsourcing messenger service save time and cost for the organization. This shows that the benefit obtained from outsourcing messenger service. On the other hand, outsourcing courier service does not reduce risk as the mean (x=2.60) indicated. Outsourcing courier service does not bring lack of internal expertise(x=2.91) as the mean of the respondents inclined to disagree. In addition, the bank does not acquire innovative ideas/new technology from the outsourcing courier service (x=2.73) and outsourcing courier service of the bank does not change fixed cost into variable costs (x=2.78). Overall, in spite of the above responses, outsourcing courier service is good strategy to the bank.

4.9 Findings from interview

Based on interviewee's responses the benefits gained, cutting cost, the ability to focus on core competencies and management convenience are the main benefits from outsourcing. However, cutting costs considered for decision to outsource those activity. Some of mentioned costs saved

from outsourcing are Insurance, medical, training and development, uniform, and the like cost for non-clerical staffs. Other benefit of outsourcing is a company has no longer to deal with the hiring, firing, personnel related paper work because of the supplier take care of all these administration details which need more time.

There are challenges like, low morals of those supplied staff as compared to before and there is conflict of interest among outsourced and permanent employees. Here the conflict of interest is a serious issue that will bring about low belongingness for the bank.

The bank has expected the quality service to be gained while outsourcing its services, but the result is the reverse and it is still one big challenge faced this is because those provided staffs are not well trained. And this problem was face due to lack of competent service provider in the market and even after selection the current service provider was not performed as per the service level agreement.

With concerning to security service as most of the respondents indicated that the quality of the service delivered by the service provider was not good as the result the number of theft actions not disappeared in the bank especially in the lobby area. The bank needs strong and equipped security guards but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it.

According to the bank outsourced administrative manager, the main difficult they faced with related to outsourced services were the service provider employ unskilled employees especially in security guards and messengers. He also mentioned that according to the service level agreement that they made at the time of contract, the service provider should provide skilled full employees as the job required and it should give the necessary training that helps for those to perform their duties and responsibilities in the bank.

To the contrary as the time of interview the manager explained that one of their basic difficult are lack of skilled man power in security, messenger and janitorial services in the market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings

This study found many finding about the challenges and benefits of outsourcing practices of Dashen Bank. The majority of the respondents are male and from age view they are within 31 up to 45 age interval. Most of the respondents are degree holders and regarding experience, the majority has more than four years of work experience.

The result shows that the respondents are neutral with the bank have standards to measure the results and quality of performance of outsourced workers and applying outsourcing strategy increased effectiveness of the bank. 41.1% agreed that the outsourced staff do respect the cultures and norms of the bank. Majority 51.1% of the respondents agreed that, there are ethical

problems of those supplied staffs and 41.6% of the respondent agreed that high maintenance cost are occurred due to poor handling of the bank's resource. There are also less consistency and quality of services delivering. But for the case of focused on bank's core business activities, saves time and increased flexibility, majority of respondents agreed that outsourcing those activities benefited the bank. The study revealed some challenges that the bank encounters in outsourcing its business functions. It was gathered from the responses that the main challenges that the bank faced in outsourcing its business functions included loss of managerial control over outsourced activities, effect on the quality of service of the bank, security and relocation of existing employees and ethical problems of those supplied staffs. The responses gathered from the interview revealed that the main difficult management faced with related to outsourced services were the service provider employ unskilled employees especially in security guards and messengers.

5.2 Conclusion

The study has evaluated the challenges and benefits of outsourcing practices at Dashen Bank on non-core activities like messenger, Security guard, and cleaning Services in order to answer whether outsourcing has benefited or hindered the core activities after the implementation of outsourcing strategy.

Majority of the respondents agree that outsourcing security services save time and cost, allow to focused on core activities, reduce budget allocation, and brings lack of internal expertise and increase flexibility. According to the responses of the respondents, majority agreed that outsourcing cleaning and messenger services save time and cost, allows to focused on core activities, reduce budget allocation, lower investment requirement, brings lack of internal expertise and increase flexibility. This indicates that outsourcing those above non-core activities are in good position or beneficial. However, the bank has faced some challenges; low quality of services delivered, low employee morals, conflict of interest, unethical behavior of employees and low quality of workers. Moreover from all the challenges, the most serious one are difficult to measure service quality and low employee belongingness.

The researcher tried to evaluate employee's attitude toward the current outsourced services and found that there is the quality of security service delivered by the service provider was weak and messengers and security guards of the bank were not well trained and know their jobs as well as they did not perform tasks as per their expectation. However there are some challenges, employees of the bank has a positive attitude towards outsourcing.

5.3 Recommendation

Management of the bank should put in place clear criterion for measuring the outcomes of outsourcing practice. The management should monitor the services offered by outsourced agent especially on the security guard services so ensure customers are handled well by the outsourcing agent and their complaints are handled promptly. The Management should also offer customer service training to outsourced staffs to enhance service delivery and ensure their customers enjoy happy banking.

Management of the bank should improve and as well as build up a good personal relationship with its service providers in order to gain more from each other through solving of challenges that arises from outsourcing those activities.

The bank need to be prepared mentally and materially through proper and continuous training that makes the service providers active and devoted to the bank. In order to make committed and devoted service provider, the management of the bank should conduct consultations with the service provider agents about the kind of services the required.

The bank should have its own rules and procedures to measure and control outsourced employees' activity and it should inform the new comer outsourced staffs about the norms and cultures of the bank and their duties and responsibilities. The bank should have standards to measure the results and quality of performance of outsourced workers and the application of outsourcing for the bank competiveness. The bank should have formal rules procedure to communicant the culture of the bank and aware outsourced workers about their duties and responsibility.

The bank should work on ethical problems, poor handling of resources, respect professionals, being inexperienced and incompetent, conflict of interest, low belongingness, misalignment, controlling, consistency and quality of those supplied staffs.

5.4 Suggestions for Further Study

This study provides a lot of facts and findings about the challenges and benefits of outsourcing practices of the bank in Addis Ababa. Apart from the findings that this research had described and explained, it has also provided valuable implications for studying outsourcing issues for future research. The suggestions for further studies are, it needs to expand the respondents of the primary research into the whole organization, and further in to other banks to have an industry wise understanding and studies should test hypothesis to measure the relations among outsourcing practices in banks and the effects of practices on banks performance, operational or financial performance by using more advanced technique to analyze the primary data.

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Appendix I

Addis Ababa University

School of Commerce

Department of Logistics and Supply Chain Management

Questionnaire

This study is being carried out on the title "Benefits and Challenges of Outsourcing practices at Dashen Bank s.c" in partial fulfillment of the Award of a Master of Art Degree in Logistics and Supply Chain Management.

Confidentiality: Any information you present will be kept absolutely confidential and will be used only for academic purpose. Your cooperation and on time response will be highly appreciated.

Informed consent: Taking part in this study is completely your choice. If you choose not to participate in the study or if you decide to stop participating in the study you will continue to be treated normally. You can stop participating in this study at any time, even if you have already given your consent and if for any reason you would wish to come back into the study after withdrawal, we will be ready to accept you to continue with the study. Refusal to participate or withdrawal from the study will not involve penalty or loss of any benefits to which you are otherwise entitled.

General Instructions: There is no need of writing your name. Where answer options are available please **circle** on the appropriate letter for part I and Put **"√"** Mark for part II.

Part I:

A. Demographic information

Sex: 1. Male 2. Female

Age: 1.Below-30 2. 30-45 3.46-55 4. Above-55

B. Educational level

1. Diploma 2. First Degree 3.Masters 4. Above

C. Years of service?

1. 1-3 years 2.4-6 years 3.7-10 years 4. Above 10 years

D. What is your level of awareness about the concept of outsourcing?

1. Very low
2. Low
3. Medium
4. High
5. Very high

E. How do you feel aboutthe servicesthat are delivered by the outsourcing service provider?

1. Very dissatisfied
2. Dissatisfied
3. Neutral
4. Satisfied
5. Very satisfied

F. Job position

1. Managerial 2. Supervisor 3.Operational worker 4. Other

Part II

Questions designed to collect information about the benefits and challenges of outsourcing in Dashen Bank

Indicate how important you feel each item in making decision of outsourcing the business functions using the following rating scale: 5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

Put **"√"** Mark in the appropriate column to signify the importance level of each item.

1. Regarding standards, competitiveness, cultural aspects, duties and responsibilities, and norms.

Table I

	Justification for making the decision	5	4	3	2	1

1	Dashen Bank has standards to measure the results and quality of performance of outsourced workers					
2	Due to applying outsourcing strategy the effectiveness of Dashen Bank increased					
3	Dashen Bank formal rules and procedures to communicate the cultures of the bank					
4	Outsourced workers effectively know their duties and responsibilities					
5	Outsourced workers respect the cultures and norms of the bank					

2 Summary of identifying the challenges or problems arise due to outsourcing of non-core business functions

Table III

	Justification making the decision for	5	4	3	2	1
1	There are ethical problems of those of supplied staffs					

2	Poor handling of the Bank's resource and high maintenance costs are occurred					
3	There are high problem of respecting professional employees of the bank					
4	Inexperienced and incompetent workers are provided					
5	High misalignment between the bank service requirement and capability of service provider					
6	There are problem of controlling outsourced staffs during working hours					
7	Consistency and quality of services are delivered by outsourced staffs					

3. Rate the table to identify the benefits of outsourcing Security Service delivered by outsourcing agent.

Table IV

	Justification for making the decision	5	4	3	2	1
1	Outsourcing of Security Service saves time and cost					
2	Outsourcing Security Service allows to focus on core business function					
3	Outsourcing Security Service improves service quality					
4	Outsourcing Security Service reduces risk					
5	Outsourcing Security Service reduces budget allocation					
6	Outsourcing Security Service lowers investment requirement					
7	Outsourcing Security Service brings lack of internal expertise					
8	Outsourcing Security Service increases flexibility					
9	Outsourcing Security Service acquires innovative ideas/new technology					
10	Outsourcing Security Service changes fixed cost into variable costs					

4. Rate the table to evaluate outsources of cleaning Service delivered by agent.

Table V

	Justification for making the decision	**5**	**4**	**3**	**2**	**1**
1	Outsourcing cleaning Service saves time and cost					
2	Outsourcing cleaning Service allows to focus on core business function					
3	Outsourcing cleaning Service improves service quality					
4	Outsourcing cleaning Service reduces risk					
5	Outsourcing cleaning Service reduces budget allocation					
6	Outsourcing cleaning Service lowers investment requirement					
7	Outsourcing cleaning Service brings lack of internal expertise					
8	Outsourcing cleaning Service increases flexibility					
9	Outsourcing cleaning Service acquires innovative ideas/new technology					
10	Outsourcing cleaning Service change fixed cost into variable costs					

5. Rate the table to evaluate outsources of messenger/courier service

Table VI

	Justification for making the decision	**5**	**4**	**3**	**2**	**1**
1	Outsourcing courier Service save time and cost					
2	Outsourcing courier Service allow to focus on core business function					
3	Outsourcing courier Service improves service quality					
4	Outsourcing courier Service reduce risk					
5	Outsourcing courier Service reduce budget allocation					
6	Outsourcing courier Service lower investment requirement					
7	Outsourcing courier Service brings lack of internal expertise					
8	Outsourcing courier Service increase flexibility					
9	Outsourcing courier Service acquire innovative ideas/new technology					
10	Outsourcing courier Service change fixed cost into variable costs					

Appendix II

Addis Ababa University

School of Commerce

Department of Logistics and Supply Chain Management

Interview question to be answered by Manager of the outsourcing administration office

1. How do you compare the challenges and benefits before and after outsourcing?
2. Due to outsourcing security services, is theft increased? Commitment decreased?
3. What type of measure did your organization take to solve problems that faced during? Or after outsourcing? (If any)
4. Do you think that the service quality and performance of the service provider result in service level agreement? If not what is/are the reason/s?
5. Do you have any comments and suggestions?