

**ASSESSMENT OF OUTSOURCING PRACTICES IN COMMERCIAL  
BANK OF ETHIOPIA AND DEVELOPMENT BANK OF ETHIOPIA IN  
ADDIS ABABA**

**A Thesis Submitted to the Graduate Program of the Department of Management and  
the College of Business and Economics of Addis Ababa University  
In Partial Fulfillment of the Requirements for the Degree of  
Masters of Science  
in Management  
(Entrepreneurship and Innovation Management)**

**By**

**Tsega Taye Tirfie GSE/5595/09**

**Addis Ababa University**

**Addis Ababa**

**June, 2019**

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**June, 2019**

**Addis Ababa University**  
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**Department of Management**

This is to certify that the thesis prepared by Tsega Taye entitled “Assessment of Outsourcing Practices; In case of Commercial Bank of Ethiopia And Development Bank of Ethiopia.”, which is submitted in partial fulfillment of the requirements for the Degree of Masters of Science in Management (Entrepreneurship and Innovation Management), complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Chair of Department or Graduate Programs Coordinator

### **Declaration**

I, the undersigned, declare that this research project is my own work and effort and it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

Declared by:

Confirmed by advisor

Name: Tsega Taye Tirfie

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Date:

Date:

### **CERTIFICATION OF APPROVAL**

I certify that I have read **OUTSOURCING SERVICE IN GOVERNMENT OWNED BANKS IN ADDIS ABABA** by Tsega Taye, and that in my opinion this work meets the criteria for approving a thesis submitted in partial fulfillment of the requirement for the degree Master of Science in Management: Entrepreneurship and Innovation Management at Addis Ababa University.

Advisor:       Tilahun Teklu (PhD)

Signature:

Date:

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## **List of Abbreviations**

CBE: Commercial Bank of Ethiopia

DBE: Development Bank of Ethiopia

CN: Commercial Nominees Plc.

### **Acknowledgement**

I want to express my great gratitude to the staff of CBE and DBE for their time and patience in filling the questionnaires and their cooperation to give appropriate answer for the interview questions. I also want to thank my advisor for the guidance and positive attitude through the research process. Lastly, I thank my parents, friend, sister and work colleagues for their understanding and support.

## **Dedication**

This thesis is dedicated to Almighty God for everything that he has done for me.

## **Abstract**

*This study assessed the status of outsourcing services in government owned banks in Addis Ababa. The population for the study was the staff of senior and above senior level officers and managers of both banks: West district of CBE and head office of DBE were selected for the study. A simple random sampling was used to select the respondents for the questionnaires and a purposive sampling technique was used as well to select managers of the banks for the interview. The study used both primary and secondary data. The study brings out that the banks had outsourced the non-core activities of security, messenger, cleaning and lobby person services. These services have been given on a contract basis on a long term partnership. These banks have different motives to outsource these services. As the data gathered shows that some of the reasons are cost reduction, to save time, to enable flexible utilization of resources, take advantage of expertise and others. According to the responses, it was understood that the majority of the respondents agreed on the terms of outsourcing the major four services (security, messenger, cleaning and lobby person) had helped the banks in improving the performance of the banks and employees, enable them to have higher market share, reduce cost, focus on core functions and saves time of the managements. The major challenges associated with it was employee's lack of belongingness to the banks, lack of commitment, less service quality, threat to security and confidentiality, some hidden cost associated with it and less managerial control. So it was recommended that the bank's management must strongly take in to account how the assigned employees are treated at their respective branches so that they can improve their belongingness and commitment to the banks. Also the banks must aware managers at different levels about outsourcing. It was also recommended that as the service provider company (CN) is owned by CBE itself, the bank must strengthen the company at training and development and quality service aspects. The government also must strengthen outsourcing non-core functions as a good business strategy.*

**Key Words: Outsourcing Services, Non-Core Activities, Performance of the Banks, Service Provider**

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background

Many companies have been practicing outsourcing since several years ago. Outsourcing is the process of establishing and managing a contractual relationship with an external supplier for the provision of capacity that has previously been provided in-house (Momme, 2001). Even though outsourcing mostly focus on IT until 1990G.C, it has now become company's strategies to win the competition of the business environment and to achieve organizational goals. The objective then was often largely to access external capacity in providing the services. In the past, the world has witnessed a remarkably rapid growth in Business Process Outsourcing (BPO) to areas such as manufacturing, product development and innovation. With Business Process Outsourcing, the target is basically longer-term and it focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns (Maku & Iravo, 2013).

As Cox (2014) states, as from the early days when it was viewed as a minor thing which aimed at reducing costs, outsourcing has now matured into a strategic management tool. Global outsourcing market's growth in the past years has been exceptional. In the face of increasingly intensified competition in the emerging global economy, firms are progressively turning to outsourcing some of their functions (Cox, 2014).

With an increasingly unstable business environment, organizations are continuously looking for better ways of gaining competitive advantage. One of the strategies that firms can employ to acquire sustainable competitive advantage is outsourcing. Outsourcing is the process of establishing and managing a contractual relationship with an external supplier for the provision of capacity that has previously been provided in-house (Momme, 2001). The stiff competition in business and the advantage of outsourcing forced companies to evaluate, improve and re-engineer their operations.

Many managers consider outsourcing as the only way to keep a business competitive in this century. As Insinga and Werle (2000) noted, these re-engineered processes have a significant contribution to the efforts by organizations to satisfy customer needs and wants. Cox (2014) also states that every firm engages in outsourcing to some extent. Firms may outsource manufacturing, customer care, logistics, after sales technical support, market research, IT support, human resource, and product design and development services. Cox further states that while many may not outsource the above value chain activities, it is more common for

most firms to outsource support activities such as accounting, auditing, staffing, or administration. The decision regarding what functions to outsource and which ones to keep in-house depends on many factors and differs from company to company. As Maku and Iravo (2013) noted, over the past two decades there has been a growing recognition of the vital contribution of outsourcing strategy on the performance of organizations. Thus it is no doubt that outsourcing becomes a sensitive issue these days. This study investigates what functions are outsourced and the reason for outsourcing them in government owned banks in Ethiopia, particularly Commercial Bank of Ethiopia and Development Bank of Ethiopia.

As these banks vision is to become a world class commercial bank by 2025 and to be 100% successful for all financed projects by 2020 respectively, they must focus on their core goals of the overall plan.

These government owned banks have been further expanding their branch, the type of services they provide and means of providing the services. Hence, such core activities are demanding increased emphasis of the decision makers and allocation of more resources as they are strategic functions of the banks that enable them to provide quality of services to their respective customers. To provide a ground to focus on the core activities and improve service qualities, the management of the banks came to the decision to transfer some of the non core functions to an external service provider because It is crucial for these banks to be able to meet the needs and increasing demand of customers for better and improved products or services in terms of banker-customer relationship. In relation to this the efficiency and effectiveness of the banks have to be supported with the participation of outside specialist service providers that leads to outsourcing. The Banks found it significantly very important to consider outsourcing as a management option. It is for this reason that this research sought to study the reasons of outsourcing services in government owned banks.

## **1.2. Statement of the Problem**

This day's large number of business companies has emerged, delivering different types of services, in our country. This has resulted for the demand of adopting international financial reporting standards (IFRS), which brought competition in banking industry. This competition exists between private and governmental or among private banks or even between government owned banks in having a lot of customers and serving a quality services. In order for these companies to focus on their profitability and become competent in the market, they tend to give full or some part of their responsibilities for another company to be administered. So outsourcing non-core responsibilities helps a company to focus on major higher strategic issues of the company, to reduce cost, improve the quality of service delivery, enable the

company to achieve its strategic goals and also helps to improve the operational performance of the banks which in turn contribute for governmental achievement, as the banks are government owned ones. Operational challenges may arise from the service provider; may have a gap in specific technical expertise, capability or capacity for delivering the desired quality service (Aron, clemons & Reddi, 2005). As Glimer also share the point that during implementing the service, the tasks of outsourcing are transferred from the service users to service providers, which result in lesser benefits. This in turn might result in low quality of the service. Also the trust on the outsourcing company might affect the process in a way most service providers may not realize the client company's culture / personality and the service delivered by them may not fit in the client's expectations or culture because the service provider company provide the same kind of services without studying the dynamic demand and culture of different organizations. If such challenges arise through the process, they will eventually affect the company's performance on core competencies which arise a doubt about that outsourcing the non-core activities doesn't give any benefit and loose the whole point of concentrating on major goals.

The other concern of this study is therefore the risk or benefits associated with a third party providing the outsourcing services, what benefits these banks get and what challenges they face must be given a great attention. That is these banks, as they are developed in order to achieve one or two goals of the government or the country, should give a great emphasis to maximize the benefits of outsourcing and enable to harvest as many benefits as possible from the service delivered. In general, we don't know about the state of outsourcing practices in Ethiopia particularly in banking industry (government owned).

### **1.3. Objectives**

#### **1.3.1. General Objective**

This research's general objective is to assess the practices of outsourcing in CBE and DBE.

#### **1.3.2. Specific Objectives**

- ✚ To identify the practices adopted by government owned banks in outsourcing its services.
- ✚ To assess the reasons for outsourcing
- ✚ To identify challenges in outsourcing the service
- ✚ To study the benefits of outsourcing its services and its impact on other core targets of the banks.
- ✚ To assess the overall effect of outsourcing on the bank's performance

#### **1.4. General Research Questions**

What are the practices of outsourcing in CBE and DBE?

Specifically this research answers:-

- ❖ What are the reasons for outsourcing?
- ❖ Were there any challenges in outsourcing?
- ❖ What are the overall attitudes towards outsourcing?
- ❖ What benefits are gained by outsourcing?
- ❖ What are the practices adopted by the banks in outsourcing the services?
- ❖ What is the effect of outsourcing on the performance of the banks?

#### **1.5. Purpose of the Study**

The purpose of this research is to assess the outsourcing practices in governmental banks.

#### **1.6. Significance of the Study**

Nowadays the emphasis given to outsourcing service by companies who want to outsource their services and by companies which want to deliver the services is high. So this research discovers the experience of outsourcing service in government owned banks. By doing so, the researcher evaluated the difference of the services, prior and after outsourcing their services. This research will enable management of a company to gain a deep knowledge about the concept of outsourcing to make a good decision when considering outsourcing their services. They will have a great understanding about how the outsourcing strategy has brought a good performance change in their company and they will try to optimize the benefits gained in order to retain competitive advantage on today's business competition. The findings of this research also will be useful for companies or individuals, who provide the outsourcing services, to involve in delivering the service as a base, to identify the demands of government owned banks.

The banks may use it as a back ground or criteria for controlling the outsourcing service and for their outsourcing plan, developing policies, strategies and practices. Last but not least the findings of this study may be used as a bench mark for researchers to conduct a research in the future according to the changes in the business environment.

#### **1.7. Methodology**

In this section the general idea technique is used to gather data from the selected banks about the outsourced services which were security, messenger, cleaning and lobby person activities. Survey methodology has been used to gather data. The study also uses qualitative approach. The head office of Development Bank of Ethiopia and the west district office and selected branches administered under this district of Commercial Bank of Ethiopia are selected to

gather data. The management members are selected as respondents by using simple random sampling methods and purposive selection technique has been used to select the management staff of these banks in order to gather a reliable data from managers of departments, who directly have a work related to the study, through interview.

Also both primary and secondary data are gathered for this study as structured questionnaires and interviews as a primary and scholarly written journal, articles or other relevant literatures as a secondary one. The questionnaires has been developed in a sense to ask why, what and how questions and also it included summated rating scale as a quantitative approach. Questionnaires has been distributed to respondents and statistical package for social sciences (SPSS) programming was used to analyze the data.

### **1.8. Limitations**

To make the data manageable and due to constraint of time, this study is limited to branches of one district from CBE, even though there are more than 1000 branches all over the country, and the head office of Development bank of Ethiopia on human resource outsourcing service. The result may not exhaustively describe the extent of outsourcing practices in government owned banks.

### **1.9. Scope / Delimitation**

To make the study more manageable, the scope of the study enclosed two governmental banks in Ethiopia, found in Addis Ababa, Commercial Bank of Ethiopia and Development Bank of Ethiopia. The data used for the study covers the west district office of Commercial Bank of Ethiopia and the head office of development bank of Ethiopia.

### **1.10. Ethical considerations**

The interviews that the researcher prepares doesn't cause harm to the participants. The research questions do not require the participants to give any information that are risky for them; if there are answers or information that might put the participants in danger, the researcher will follow the necessary procedures, before using the information given for the study and inform the participants the probability of being in risk, to ensure and get the approval to use the information as a data for the research. The other consideration is on the interview and observation that is the confidentiality and protection of creative new ideas and privacy of the participants.

### **1.11. Organization of the Study**

The research is organized in to five chapters each dealing with different ideas. In the first chapter, background of the study, statement of the problem, general and specific objectives, research questions, scope of the study, significance of the study and limitation of the study

are included. The second chapter deals with literature reviews; both theoretical and academic. In chapter three research designs and methodology is briefly stated including the research type, population of the study, sampling method, sample size, data collection and method of data analysis are included. In chapter four a brief analysis and interpretation of data is presented. Under the last chapter, chapter five, summary of the research findings, conclusion, possible recommendations and future research ideas are included. Questionnaires, interview question and other document used in the research are attached as annex in the appendices.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Definition of Outsourcing**

Outsourcing is defined by different scholars differently.

Erbet & Sayed Ahmed (2005) defines outsourcing as sub-contracting a process to an external company.

McCarthy and Anagnostou, 2004 described it as an agreement in which one company contracts out a part of their existing activity to another company.

Momme, 2001 defines it as “Outsourcing is the process of establishing and managing a contractual relationship with an external supplier for the provision of capacity that has previously been provided in-house or has not started yet.

According to Power et al. “Outsourcing is made up of two words – “out” and “sourcing”; sourcing refers to “The act of transferring work, responsibilities and decision rights to someone else”.

Ashley gave the definition of outsourcing as “the allocation of risk and responsibility for performing a function or service to another entity.

Brown and Wilson, 2005 describes it as “Out sourcing is “the act of obtaining services from an external source”.

Outsourcing is “the strategic use of outside resources to perform activities which were traditionally handled by internal staff and resources” (Handfield, 2006).

According to the above definitions, the authors came to a common understanding that there are four parties involved for outsourcing to come alive. These are the outsourcer company, the service delivery company, the service being outsourced and the agreement or the ground between the two companies. Also these authors pin pointed that outsourcing is a process of transferring or contracting one or more activities or responsibilities to another or external company which enables them to use outside source in managing the whole process. Advocates of outsourcing point out that outsourcing a service to a contractor can reduce labor costs and increase benefits of providing a single point of accountability and predictable costs; the resulting cost savings permits the institution to focus more resources on its core business functions Jurison (1995, 2002).

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, and structured norms and cultures creates more resistance to change (Bartem and Sherry, 2001). It is believed that outsourcing is a natural

process 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). Outsourcing allows organizations to concentrate on their 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, budget constraints and 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. So this thesis deals with the most common outsourced services in government owned banks in Addis Ababa which are security, messenger, cleaning and lobby person activities.

## **2.2. Types of outsourcing**

Duening and Click (2005) divide outsourcing in to three types (offshore, near shore and onshore) based on location and the function served.

### **2.2.1. Offshore:-**

Offshore outsourcing is “the transfer of the responsibility for delivering service from continent different from where the recipients operate” (Buelen et al, 2006). This type of outsourcing is the outsourcing of services to an organization outside the local country and it allows the outsourcer company to compete on a global basis for lower costs and better efficiencies. On the contrary, off shoring leads to loss of local jobs due to relocation of the business unit, lose of visibility and control over a potentially extended supply chain, difficulty with business operations due to time differences, difficulties in transferring knowledge, and misunderstandings due to language or culture (Alex Bank, 2010).

### **2.2.2. Near shore:-**

Near shoring is defined as outsourcing within nearby territory, accessible by short travel or telephone in the same or neighboring time zone. Near shoring is outsourcing activities to nearby country having the same time zone and short distance that can be accessible in a simple way. Nearer countries are likely to have common cultural values and similar mindset. The time difference and the cost to travel are relatively reduced. As the result, this type of outsourcing overcomes some of the difficulties of off shoring (Alex Bank, 2010).

### **2.2.3. Onshore:-**

On shoring is also called domestic outsourcing. As the name indicates it refers to assigning some services to be provided by some organizations outside a company but locally. This type

of outsourcing helps organization to achieve lower operation costs and benefits from having local employees which are not obtained from other type of outsourcing (Alex Bank, 2010).

As we see from the above definitions the three type of outsourcing differ in location of the service provider company and their benefits provided to the outsourcer organization. Both offshore and near shore outsourcing made in different countries where as onshore is realized at home country with related to the place of the outsourcer organization. The concept of all type of outsourcing could be summarized in the functions to make decisions to transfer the job to a third party, and organization focus on core activities by handing over non core activities to others who are specialist in order to increase job efficiency , cost reduction , service quality, etc.

On the other hand, Brown and Wilson (2005:21-23) classified outsourcing in to three, depending on the type of human capital and the type of tasks assigned as Tactical, strategic and transformational.

#### **2.2.4. Tactical outsourcing**

Tactical outsourcing is involved in doing the work under existing rules and usually tied to specific problems being experienced by the firm such as lack of financial resource to make capital investment, inadequate internal managerial competency, and absence of talent or desire to reduce headcount. Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. The tactical outsourcing results in visible benefits in the form of enhanced cash savings, minimizing the need for future investments and resolving staffing issues. It is often seen as a short-term solution with fast effects. According to Brown and Wilson (2005), many tactical relationships are implemented to: generate immediate cost savings, eliminate the need for future investments, realize a cash infusion from the sales of assets and relieve the burden of staffing. These two authors also mentioned that, the focus of tactical outsourcing is specifically constructing the right contract and subsequently holding the vender to the contract when the managers formed successful tactical relationships.

#### **2.2.5. Strategic outsourcing**

This approach to outsourcing is more broad and fundamental. It involves the whole business strategy of an organization and allows management to take a step back and focus on the big picture of operations. Strategic outsourcing creates an opportunity to redefine the company's efforts with regards to the products and services offered and to focus on what it does best and where it has its competitive advantages. Thus, the company can concentrate on its core business and outsource parts or all of the rest. The service provider will often help assist the

organization in developing its business and through its services, in part, be co-responsible for the success of the company. Over a time, as business gained greater value from outsourcing relationship, the goal of this relationship changed. Strategic outsourcing relationships is about building long term value, and aimed at achieving better return on investment and accelerate the growth of the two parties. In strategic outsourcing concept, organizations are engaged to work with a small number of best in class integrated service providers instead of working with a large number of vendors to get the job done for mutual benefit.

#### **2.2.6. Transformational outsourcing**

Transformational outsourcing is a more radical approach where organizations basically look at the business in a whole new way. It works on the basis of how a company might run its business, if it could start all over again. Company would be using outsourcing as a strategic tool from the starting point. This type of outsourcing is typically used when a company is separated from its parent company or when a new product is introduced that is very different from the existing products in the company. Transformational outsourcing, thus, allows companies to be innovative and be free to come up with new and more extreme ideas, as functions can be outsourced if the company cannot do them itself effectively & efficiently.

Transformational outsourcing is the third stage which organizations use for the purpose of redefining their business. To survive economically today, organizations must transform themselves and their market in an over more sensitive challenges to redefine the business world before it redefines them. To that end outsourcing has emerged as a single most powerful tool available to executives seeking this level of business change. In transformational outsourcing the service providers are not only viewed as tools for becoming more efficient or better focused rather they are seen as powerful forces for change.

#### **2.3. Possible Reasons why an organization needs to Outsourcing a Service/Function**

Successful adoption of outsourcing involves different concerned parties in making important decisions about the business they are in and the best mechanism for delivering their services to the customers. Whether organization outsource for the first time or as a renewal exercise, the initial step is to determine the primary reasons for the outsourcing (Choi, 2008).A company hires the services of the external party due to several reasons such as reduction in cost, trained employees, shortage of staff or equipments, better technology, best service quality, the ability to learn new things, contractors have better reputation, to develop better relationship with other organizations, provides flexibility as organizations focus on other important functions etc (Ashrefa, et al, 2010).

As survey or research was conducted by Miller (cited in Sriwongwana, 2009), 86 percent of respondents, including top executives, said that introducing outsourcing into their organizations could increase their overall business outcomes in many areas. The survey also found out other reasons from respondents why companies need to outsource including to concentrate on their core business activities, to more quickly attain business goals, to engage indifferent kinds of innovations, to focus on market changes in order to boost revenues and profits of the organization.

Even though organizations have their own specific reasons to outsource their functions to service providers, according to different scholars the following are the main reason for organizations to make a decision for the outsourcing a service.

**A. To focus on strategy:-** outsourcing non-core activities to another party allows the management of an organization to spend more time on strategic issues in order to become competent in the business environment as a company's strategy is the most priority one to do so (Bragg, 1998).

**B. To focus on core functions: -** A company has very small number of functions that are key to survival. To give more attention to this core functions, a company distribute non core functions among a group of suppliers who are capable of performing them well enough that company management will not be bothered with any of the details associated with running them. When an organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core as well as core now but later to become less important functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission (Choi, 2008).

As Brown and Wilson (2005) stated that a company would keep only those core functions in house as long as it can do better than other supplier, which means it need to keep its functions in house if the functions are core functions as well as there is no supplier that can do it better than the company itself.

**C. Improve flexibility: -**Choi (2008) justify flexibility as maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. On the contrary, organizations may only be able to maintain resources at a level just sufficient to meet normal demand, which leads to poor customer service at peak periods. In such situation, outsourcing of functions that are subject to peaks and low economic activities in usage can provide organization with the flexibility to respond rapidly to changing demands.

**D. Reduce cost:** - A supplier can lower costs by centralizing the work of several companies at one location and purchase its input in large volume. So, the company can reduce its cost indirectly by transferring its function to this type of suppliers (Brown and Wilson, 2005)

**E. Access to skills:** - an organization may face shortage of skilled and experienced staff. Existing staff may not always have the necessary skills to keep pace with rapidly evolving change and technology. When an organization is considering providing new services, outsourcing can ease the process of building the skills and resources required to respond to these new initiatives. In some cases, outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. On top of this organizations also benefit from having their staff work with the service provider's specialists (Choi, 2008).

**F. Improving service quality:** - Functions noncore for the outsourcer is core for the supplier, and it focus on running the process efficiently. Since it is a core activity for the supplier, it would make every effort to bring improvements in the outsourced process and deliver quality standard service than the company itself (Aran and Patel, 2005).

Bragg (1998) notice that before deciding to outsource based on one or more of the above reason, the concerned body who is making the outsourcing decision should consider that it is not necessary to outsource an entire area rather those tasks within the function that are clearly worthy of being outsourced and keep all other tasks in-house. As Domberger (1998) states contracting the provision of key parts and components can make an organization to loss its core competences. According to Brown and Wilson (2005), selective outsourcing reduces the risk of the company when the chosen supplier is not performing its task properly.

Let us see what the authors say about why companies need to outsource their non-core services in a summarized way.

Table 2.1; Summary of Reasons for outsourcing by scholars

#	Authors	Reasons for outsourcing
1	Chio 2008	<ul style="list-style-type: none"> <li>- To be flexible</li> <li>- To focus on resources and activities</li> <li>- To get skills in human &amp; other resources in administering the service</li> </ul>
2	Ashrefa, et al, 2010	<ul style="list-style-type: none"> <li>- To reduce cost</li> <li>- To get trained employees</li> <li>- To overcome shortage of staff and resources</li> <li>- To gain better technology</li> <li>- To get a quality service</li> <li>- To learn and adopt new things</li> <li>- To take advantage of better reputation</li> <li>- To develop better relationship with other organizations</li> <li>- To be flexible</li> </ul>
3	Miller (cited in Sriwongwana 2009 from a research)	<ul style="list-style-type: none"> <li>- To increase overall business output of a company</li> <li>- To concentrate on core activities</li> <li>- To attain business goal</li> <li>- To increase company's profitability</li> </ul>
4	Bragg 1998	<ul style="list-style-type: none"> <li>- To focus on core functions</li> <li>- To reduce cost of investing on non-core activities</li> <li>- To gain better service for lesser investment</li> </ul>
5	Brown & Wilson 2005	<ul style="list-style-type: none"> <li>- To reduce cost</li> <li>- To acquire better management on core activities</li> </ul>

As we can see from the above summary that all authors focused on cost reduction and they take it as the major reason why company's need to outsource their lesser important activities to another company. Together with this to be able to focus on core activities, so as to make an organization as profitable as possible, is also given a higher emphasis.

To sum up the major reasons to outsource a service is for an organization to take advantage in concentrating on core businesses (strategies), to be flexible and competent in the business environment, adopt new technology and relocate and use organization's resources and also use resources from outside source. Outsourcing a service will also enable an organization to increase profitability, productivity, learn/obtain skills and encourage innovation. On the finance perspective, to reduce cost and capital of non-core functions, an organization might choose to outsource some functions.

#### **2.4. Outsourcing HR Functions and Activities**

Human resource outsourcing, as described by Reed (2011), is the process where elements of a company's human resource management (HRM) functions or activities are transferred to a provider outside of the company. Outsourcing the Human Resource (HR) function is aimed at improving the efficiency of an organization (Arnold, 2010). The earlier focus which was on

traditional, operational and administrative perspectives has lately had a major shift to changes in strategic HRM and employment relationships (Beardwell & Claydon, 2012). The recent approach to HR management has to do with clarifying the relationship between business strategy and HRM. Organizations are further required to assess the way in which HRM can be strategically used in the achievement of organizational goals (Thompson et al., 2008). Outsourcing HR activities is a major strategy adopted by business executives to meet the demands and objectives of organizations. Armstrong (2006) indicated that most companies require the services of professional outsourcing service provider firms. Most companies have therefore outsourced their HR function due to different reasons (Turek, Watson, Bhansali, Baron & Lacerte, 2005). According to Armstrong (2006) outsourcing the HR function is a cost-effective HR strategy. Several companies have outsourced all or some of HR activities because they might not be able to afford the cost of employing talented fulltime or part-time employees across all areas of the organization's operations.

The issue of whether or not to outsource the human resource function is the decision point on the benefits and costs of outsourcing HR needs. There has been a tremendous increase in the number of organizations that have outsourced their human resource functions, not considering the disadvantages and challenges that are associated with outsourcing. The last two decades had a major shift with many companies outsourcing most or all of their HR functions (Beardwell & Claydon 2012). Companies nowadays believe that the development and maintenance of the HR function requires a lot of cost and this has called for the greater number of functions being outsourced to external entities. The HR function has therefore become the most popular function to outsource. There is, therefore, a major increment in the number of Human Resource Outsourcing (HRO) providers.

### **2.5. Advantages and Disadvantages of Outsourcing**

As we have been highlighted earlier that outsourcing non-core functions of a company have many advantages. In this sub topic we are digging in to this issue much deeper. But before going to the advantages that outsourcing could bring to the company, it is also important to analyze when outsourcing is most efficient at. (Business Relations Management Company, 2008). Some of the major decision points are listed below.

- When a company makes a strategic decision to focus resources on core business
- When a company has just started to operate, and yet cannot afford to have its own staff
- When a company is reducing staff, but a number of marketing functions is still needed
- When a company is not satisfied with the level of service that the internal services provider provided

➤ When a company has a period of internal changes (restructuring, reorganization, the process of mergers and acquisitions), it would be wise for a company to outsource its non-core activities.

### **2.5.1. Advantages of Outsourcing**

Large companies often face a challenge in high cost of non-core business processes. In this case the uses of outsourcing services can give a tangible economic benefit to the company (Dumnaya N.N & Cheremishin 2010). Outsourcing also gives company an opportunity to cut costs and reduce the complexity and expenses of information systems operation. Outsourcing can bring many advantages to a company. According to some scholars, the followings are some of the common benefits. (Business Relations Management Company, Dumnaya N.N & Cheremishin, 2010)

- Increasing profitability of a company; as outsourcing cuts expenses of maintaining business processes
- Focusing on core activity; one of the benefits of outsourcing is that the organizations will be free to concentrate on the core business.
- By outsourcing all non-core functions of the company, employees can be put to better use and the company will be able to see a huge growth in the core business. (Flat world Solutions Pvt. 2011)
- Improvement in firm's cost efficiency, by reducing the commitment to fixed-cost, full – time human resource expenses and other overhead costs.
- Employee compensation costs, office space expenses, and other costs associated with providing a work space or manufacturing setup are eliminated and free up resources for other purposes (The Thriving Small Business 2011).
- The use of highly skilled professionals with extensive experience
- Introduction of advanced technologies through specialized outsourcing company
- Increasing the competitiveness of the company; as outsourcing firm is better able to reinvest freed resources in the growth of their core business
- No administration of employees (absents, leave...) improved customer satisfaction as the service provider replaces the open spot with a minimum time.

In addition, Outsourcing increases the efficiency of the company. The non-core business functions, which are core to the service provider company, will be performed efficiently by outsourcing partner, while the core functions of the company can be efficiently carried out in-house. Thereby, the managers of the company can achieve overall efficiency and see an increase in their profits (Flat world Solutions). Outsourcing is providing great flexibility for

the company in case of sudden changes in market conditions or consumer preferences; it is easier and cheaper to find new suppliers with the necessary capabilities and resources than to rebuild the internal management of the company, eliminating some power and resources and creating new ones (Strickland III 2004). By outsourcing non-core business functions, the company can save on every aspect of its business and increase the profit. Since the company doesn't have to invest in infrastructure, it can also save on making unnecessary fixed investments. Outsourcing removes the burden of changing or maintaining infrastructure. Company's managers can also save on capital expenditure and training costs because, due to outsourcing, no need to invest in manpower. These savings will help bring about an increase in the company's revenue as a whole.

### **2.5.2. Disadvantages of Outsourcing**

Though there has been many good things said about human resource (HR) outsourcing, nevertheless there are some challenges associated with it as well. There are some complex issues in outsourcing in banking operations (Wirtz et al., 2010). There is much concentration on cooperation between the outsourcing and the focal company. This cooperation highly depends on the quality of the relationship existing between both parties. The factors that tend to be an advantage in outsourcing HR can also be a challenge. Advancement in technology and development that are brought about as a result of technological changes can be said to be a major factor in enhancing outsourcing relationship. This can also be a major challenge when the other party is not ready to adopt new technologies and this can adversely affect the relationship.

According to Fan et al. (2011) the major challenges in outsourcing HR activities include loss of managerial control over outsourced operations, quality problems, threat to security and confidentiality, hidden costs and reallocation of existing teams.

Another challenge has to do with security and confidentiality. The outsourcing contract will have terms and security spelt out in them. The challenge is that although these terms are clearly stated, there is always a problem associated with auditing. Ashley (2012) emphasized that there is a major challenge associated with the execution and auditing of terms that are captured under the outsourcing contract. Financial service providers are required to keep investment banking information away from brokers, traders and other individuals who could use such insider information to their benefit or use such information improperly. Outsourcing HR activities that has such elements in them therefore becomes a huge challenge to both parties in the contract.

Organizations stand the risk of losing vital and confidential information like audit and different reports and personal data when they outsource their HR activities and in-house knowledge and skills could also be lost too. Knowledge and organizational innovation is also lost when organization outsource their HR. The company is also likely to face decreasing organizational productivities due to the loss of employee skills and knowledge (King, 2004). Many organizations also experience loss of control over its human resource activities if they introduce outsourcing. This is greatly influenced by the quality of HR provider and the service agreement that exists between the provider and the organization.

One of the expectations of outsourcing HR is that the focal company expects to receive better services than that offered by its staff. The challenge therefore is the ability to choose an outsource service delivery company that can provide the expected service. The company must be chosen such that it would not have any negative influence on the goods and services provided by the outsourcer company. Adler (2013) indicated that if care is not taken in the selection of the service provider the consequence might be so risky that it can affect the position of the focal company.

Another major issue associated with outsourcing is that both parties are bound by only the terms and conditions as stipulated in the outsourcing contract. Anything that is not captured under the contract cannot be enforced on the other party. Any other duty that is performed by the outsourced company will be subjected to charges and that brings additional cost to the focal company.

The issue of outsourcing has to do with doing away with a particular function that was being performed by the focal company. Since that function is to be given to another supplier it will place in the minds of the employees that they are going to be fired. It is a major challenge to management of the company how to relocate and further compensate those that the company no longer needs their services. The company will also be challenged how to relocate some of the company's employees to the outsourced entity to perform that particular function. Brown and Cregan (2008) indicated that outsourcing becomes a major challenge to managers who were part of the process and see it fail.

If adequate attention is not paid to remaining employees, the organizations might face serious obstacles when outsourcing HR activities. The remaining employees may exhibit some negative feelings and these could affect the organizational culture.

Several challenges are likely to occur when an institution introduce outsourcing processes. Wang et al. (2013) highlights some of the pitfalls in outsourcing and stipulated that some outsourcing providers are found to lack knowledge, some providers are non-responsive, and

others have low performance standards. Together with this, there are also arguments concerning outsourcing services to another company.

As Gilmer (1997) argues that the main criticism of outsourcing is bringing human resource consequences. Because of shifting jobs from the financial institution to the agent, who is performing the outsourced function, may result in salary cuts, staff redundancy, or retrenchment/reduction. Sometimes the service provider could even employ staff on contract (change in employment basis). Subsequently, outsourcing critics feel that contract staff may develop less loyalty to the institution than if they were employed directly by the institution. Therefore, they express disappointment with the resulting inadequate service by contractors. Similarly, Ender and Mooney (1994) also identified that the greatest shortcomings of outsourcing is staff retrenchment /reduction results in negative impact on institutional morale. The increasing use of outsourcing recently has brought arguments from managements that an organization's competitive advantage starts from its ability to identify, focus on and develop its core competencies and activities and outsource anything which is non-core (Handy, 1982; Kanter, 1989). However, there is some disagreement concerning whether outsourcing should be applied to the non-core activities of an organization only or if it can also include core activities. Gay and Essinger (2000) believe that outsourcing can be applied to both core and non-core activities. However, it is sometimes difficult to define what is or is not a core activity (Mitzberg, 1998).

## **2.6. Process of Outsourcing**

As we have been discovering so far, outsourcing is the process of transferring responsibility to another company. Different scholars have overviewed frameworks and the layout of the overall process of outsourcing.

Mostly the typical process and phases of outsourcing ranges from decisions to continuous management and performance evaluation along with the life cycle of the relationship between the host institution and the business process supplier, Brown and Wilson (2005), Gonalgo (2005). So, as a process, there are a few stages of the overall process of outsourcing. According to Handfield (2006) there are five common main aspects of outsourcing process.

### **1. Initiation Stage**

This stage deals with discovering a business need which determines needs to improve an existing process, reduce costs, or create a new product. Once the need is identified, a cost-and-benefit analysis is undertaken. A decision is made to either use internal resources or outsource the functions. Banks usually seek outside help because they believe the supplier can do the work faster, better, and/or for lesser money. As they constantly look for ways to

improve existing processes when entering into relationships with third parties, institutions make a common mistake of looking at short-term benefit. To better understand how a third-party relationship can affect a business, decision makers should be familiar with the company's strategic long-term goals and review potential vendors from the standpoint of how they may affect the company's risk profile. Banks must also make sure that the scope of work agree with the needs assessed. All the decision of outsourcing functions are made by top management (Bragg, 1998). Together with this at this stage, it's important to consider the risks, increased vulnerability in the areas of strategic, reputation, compliance, transaction, operational, social media, credit, and other risks and means of mitigating them.

## **2. Negotiating the Contracts**

At this cycle of the process, the outsourcer and the service supplier company enter in to an agreement and sign a contract based on agreed terms. By including exact quantifiable parameters in the contract like incentives, penalties, service level agreement and contract cancellation, in order to protect themselves against service provider performance failures, the outsourcer company will establish clear expectations regarding the service supplier's responsibilities. The contract specifies consequences if expectations are not met. It is much easier to measure and assess the supplier based on precise criteria.

## **3. Implementation**

After the two companies signed a contract, the implementation of the agreed terms on paper becomes practical. During the hand-over of the service from the outsourcer or another outsourcing company to another, it is imperative that continuity of service is maintained at all times, that there is no reduction in the quality of the delivery and that timescales and deadlines are not compromised (Handfield's, 2006).

## **4. Monitoring Performance**

Management should develop service level agreements by first identifying the significant elements of the service. Once it has identified the elements, management should plan ways to measure the performance of those elements objectively. Institutions should determine the frequency of the measurements and acceptable range of results to determine when service providers deviate from the benchmarks. According to Brown and Wilson (2005), effective service level agreements identify the expected result and the measures by which both parties can assess performance. Most of the time outsourcing agreement failure occurs when both parties (outsourcer and service provider) fail to express how to evaluate the progress made against a specific target. Duening and Click (2005) suggests, service level must be intimately tied to price in order to properly align the financial interest of the vender and the business

goal of the buyer. These two authors also conclude as quality is generally a better service level measure than quantity especially in fixed price scenarios.

## **5. Termination or Renewing contact**

If at the monitoring stage the performance of the supplier is good for the outsourcer company and the outsourcing demand is for long term, companies may renew their agreement. But if the performance is not acceptable or because of other reasons, the contract may be terminated. As Bragg (1998), once the decision has been made to cancel an outsourcing contract, the decision should be made to either give the service to another supplier or to bring the function back in-house. The agreement between outsourcer and service provider may be closed or terminated due to different reasons. As he describes, among the various reasons one is that companies may need the service in a short term basis so this forces both parties to close the contract. Another reason is that dispute may arise between the two parties on the service, even though they have a specified agreement. This is because the service delivered may not be according to the specified criteria or the demand of the buyer may change.

### **2.7. Theories about outsourcing**

The outsourcing process is a complex structure 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 the process. According to Perunovic and Pedersen (2009), outsourcing can be captured under three approaches and they are indicated as Resource-Based View, Core Competency Approach, and Transaction Cost Theory. Perunovic and Pedersen (2009) described the resource-based view as the type of outsourcing that is built on the idea that an entity that does not have valuable and organized resources and capabilities would need an external provider that can assist the focal organization in overcoming its weaknesses. The resource based theory is mostly used in the preparation phase and helps to define the framework for making decisions and also in the selection of the appropriate supplier.

The organization needs to focus and concentrate on its core activities to help it maintain its competitive edge. On the other hand, Prahalad and Hamel (2013) described core activities as tasks which an organization possesses and which in turn aid the organization to have a competitive advantage. Gottschalk and SolliSaether (2005, 2006) suggest that the theory of core competences, the stakeholder theory and the neoclassical economic theory best explain the most important critical success factors of outsourcing relationships. In their later work (2006), the same authors apply cumulative theory to examine critical issues in stages of

maturity in outsourcing process. They conclude that at the beginning of an outsourcing arrangement a Cost Stage occur, which is grounded in transaction cost and agency theory. After several years of having outsourcing the focus of the outsourcer shifts into the Resource Stage, where resource based view and core competences are the most important explanatory theories. At the end, the stage of Partnership may occur with the explanations sought in relational view, social exchange, and the stakeholder's theory.

**Transaction Cost Economics:** -Transaction cost economics (TCE) is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The theory has been applied in studying the managing relationship phase, at the same time the concept of switching costs made and also in the reconsideration phase. It is a sub-theory that has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. TCE is static in nature which doesn't correspond to dynamism of current business environment.

**Relational View:** -Relational view develops and explains how firms gain and sustain competitive advantage within inter-organizational relationships (McIvor, 2005). Its key premise, the concept of relational rents, has been explored to explain how firms choose their future outsourcing partners and preferred type of relationship. It has been also utilized in studying the transition, managing relationship and reconsideration phases. This makes the relational view to be the only theory that has been applied in the research of all the outsourcing process' phases.

**Concept of Core Competences:** -The concept of core competences has been developed on the basis of the resource based theory. Prahalad and Hamel (1990) defined the core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house.

**Resource-based View:** -The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney and Hesterly, 1996). If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, unique and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness.

**Evolutionary Economics:** -Although mentioned for the first time in the 19th century, the evolutionary economics experienced revival after Nelson and Winter's work in 1982. The theory develops from Darwinism and includes some assumptions transposed to the economic "species". These assumptions include (Andersen, 1994):

- The agents (individuals and organizations) can never be perfectly informed and they have to optimize locally rather than globally
- The decision-making of agents is normally bound to rules, norms and institutions
- Agents are to some extent able to imitate the rules of other agents, to learn for themselves and to create novelty,
- The processes of imitation and innovation are characterized by significant degrees of cumulateness and path dependency but they may be interrupted by occasional discontinuities
- The interaction between the agents are typically made in disequilibrium situations and the result is success and failures of commodity variants and method variants as well as agents
- The processes of change occurring in a context described by the above assumptions and characteristics are non-deterministic, open-ended and irreversible.

This makes the theory highly applicable in outsourcing. The phases of the outsourcing process (except the transition) have been also explored through the evolutionary economics but very scarcely.

**Agency Theory:** -The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen and Meckling, 1976), but had spread over the time on explaining the relationship between two inter-firm subjects. In that context it is important to associate the agency theory to understanding the relationship between outsourcer and vendor.

**Knowledge-based View:** -The knowledge-based view provides insight in understanding how individuals' cooperate to produce goods and services. The knowledge-based view distinguishes two ways how knowledge is shared among partners. They are knowledge generation and knowledge application. The knowledge-based view has been used in utilized in the outsourcing research to prove that knowledge sharing in managing relationship phase is positively related to the success of an outsourcing arrangement.

**Neoclassical Economic Theory:** -The key characteristics of the neoclassical economic theory are (Hodgson, 1994):-

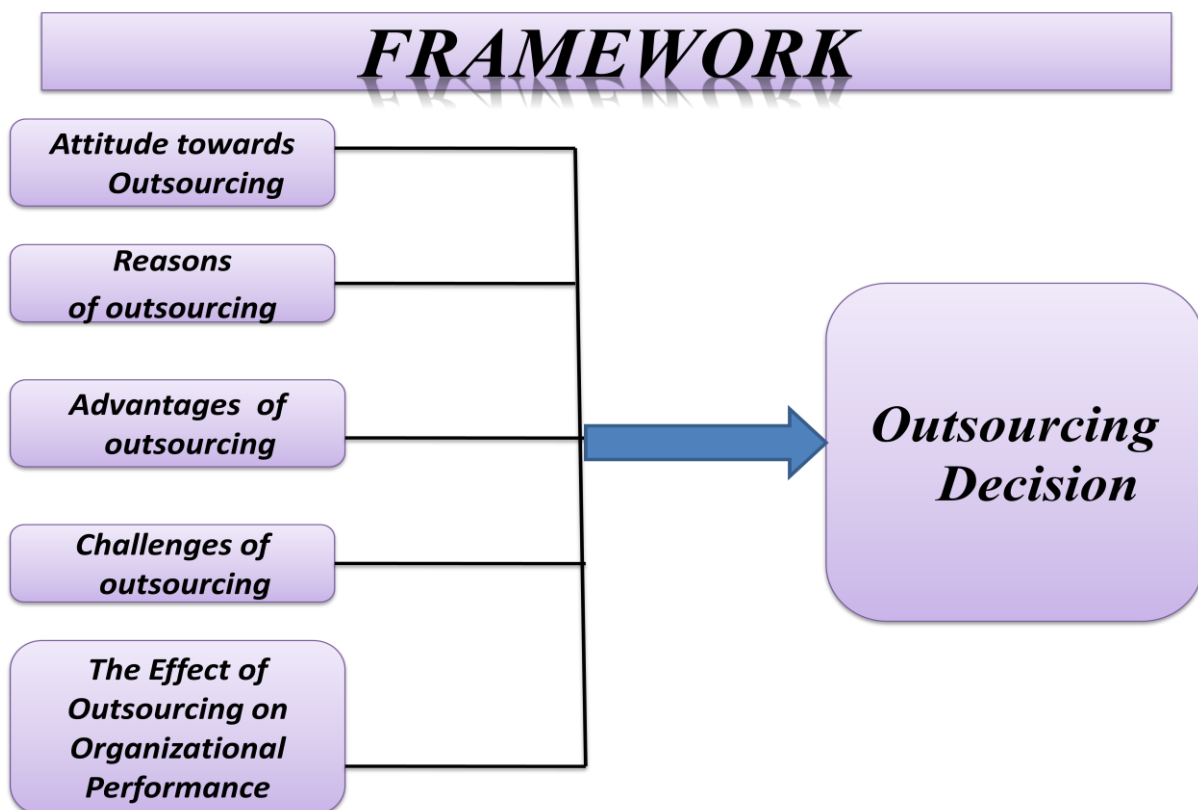
- Assumption of rational, maximizing behavior by agents with given preference function
- Focus on attained, or movement towards, equilibrium states
- Absence of chronic information problem

The neoclassical theory explains the initial motives for outsourcing. However, the theory has received a significant critique for not being able to explain modern business processes. Especially, the concepts of rationality and absence of chronic information problem have been criticized. However Gottschalk and Solli-Sæther (2005) showed that the neoclassical economic theory explains critical success factors of outsourcing that are being evaluated in the reconsideration phase.

**Social Exchange Theory:** -The social exchange theory explains interpersonal relationships by positing the economical cost benefit analysis as precondition for social engagement and exchange. The theory presupposes that the exchange of resources (material or social) is a basic form of human interaction. Social exchange is an ongoing reciprocal process in which actions are contingent on rewarding reactions from others (Gottschalk and Solli-Sæther, 2005).

To generalize, outsourcing non-core functions can benefit an organization in many ways that a company can take advantage of. As the business environment is advanced and outsourcing is considered to be one of company’s strategic advantages, it is necessary to evaluate if it is the right strategy in government owned banks found in Addis Ababa.

**Framework of the study**



*Fig. 1. Framework of the study, by the researcher, 2019*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

In this part of the study, the researcher elaborates the researcher's methodology by explaining the process and method of collecting the data, data analysis tools, research design, sampling from the target population and its techniques. This topic also explains how the mixed approach is used throughout the research process. It also covers how and where the data collection takes place.

#### **3.1. Research Design**

A research design in any research is thought as blueprint detailing what will be done and how it will be accomplished. The research design used in this study is exploratory research design which will help to gain a better understanding of outsourcing services in government owned banks and also to generate new ideas which will help for future study. As Karl POPPER (2002) states that exploratory research sets out to explain limited segments of reality by suggesting a causal order and sequence of events. This research design requires to gather data from target population by providing questionnaires and interpret the gathered data in order to gain the respondents perspective to answer the researcher's questions.

Exploratory research also uses tools like personal interviews, survey and previous studies (secondary data) as a bench mark to gather data. It will answer the basic questions related to who, where, what when, why and how in a flexible approach. So this research design is chosen because it is more effective in investigating the outsourcing services in government owned banks.

#### **3.2. Population of the Study**

A population is the collection of all cases that conform to some designated set of specifications (Gravetter and Forzano, 2012). The term population can therefore be said to describe the set of individuals (subjects), objects or events that have common observable characteristics that the researcher have the interest in studying. Cooper and Schindler (2006) also described population to include all the elements about which some deduction could be made.

The population for this study is Commercial Bank of Ethiopia's West District managers and Development Bank of Ethiopia's head office managers. The total number of branches in Addis Ababa at Commercial Bank of Ethiopia's West District is 78 and the total number of management staffs is 322. The total number of managers at the head office of Development bank of Ethiopia 25. The total population for this research is 347.

### **3.3. Sampling Method**

As described by Sekaran and Bougie (2010), a random sampling technique is the basic sampling technique where a group of subjects are selected for a study from a larger group or the population. In this study it is adopted in selecting the management staff of the banks and employees assigned by the service provider. The purposive sampling technique (which is a technique where respondents are selected for a particular purpose) was also adopted in selecting management staff of Commercial bank of Ethiopia's west district head office and Development bank of Ethiopia head office for interview questions.

### **3.4. Sample Size**

This study was conducted in Commercial Bank of Ethiopia selected branches found under West Addis Ababa District and Development Bank of Ethiopia head office. By using Yamane(1967:886) formula  $N/1+N(e)^2$  with an error of 5% and 95% of confidence level, the total sample size is 193 with 178 from Commercial Bank of Ethiopia managers, and 15 from Development Bank of Ethiopia head office are taken as a sample for the study according to their proportion. Also the researcher selected managers of both banks purposively for an interview. This is because the researcher believed that the managers are best sources to provide valuable information which cannot be obtained from other respondents.

### **3.5. Types of Data and Collection Method**

Both primary and secondary data were used in this study to make the research more valuable. The primary data was collected through questionnaires and interviews from managers of the banks. The questionnaires were constructed in open ended and closed ended questions manner in order to get the most out of the respondents. The secondary data was also collected from previous studies, journals and articles written by scholars about the issue being investigated.

### **3.6. Data Analysis Method**

To analyze the data, both qualitative and quantitative techniques were used. For quantitative data the researcher used tables, redundancy and percentages to show the highest number of group responses or the most common opinions from the group responses. In addition, the researcher examined qualitative responses through narrative analysis for the data that show perceptions and opinions and SPSS programming was used to compile the responses.

## CHAPTER FOUR

### DATA PREPARATION AND ANALYSIS

#### 4.1. Return Rate of the Questionnaires

This chapter present, analyze and interpret the findings of this study. It also captured the analysis of data that that was gathered from the respondents through questionnaires and interviews. This section is divided in to different parts as Demographics, Employees attitude towards outsourcing, Drivers or Reasons of Outsourcing, Advantage/benefits of outsourcing, Challenges observed after the outsourcing and The Effect of Outsourcing on the Performance of the Banks. The questionnaires designed for this study was administered to 193 staffs of both banks; Commercial Bank of Ethiopia and Development Bank of Ethiopia, 178 for CBE West District office and selected branches under west district and the rest 15 for DBE head office. Out of the questionnaires distributed, 173 were returned and 20 were unreturned which represented 89% of response rate of the sample size. Out of the unreturned questionnaires, 17 were from CBE and 3 were from DBE. The returned questionnaires are considered for the analysis and interpretation of the findings using statistical package for social studies (SPSS). Also an interview was conducted with the top managers by selecting the ones who have a direct connection with the outsourced services in their respective banks.

#### 4.2. Reliability of the questionnaire

Table 4.1 Reliability of the questionnaire

No	Scale	Number of items	Chrombach's Alpha
1	Attitude towards Outsourcing	9	.786
2	Reasons of outsourcing	10	.930
3	Advantages of outsourcing	12	.903
4	Challenges of outsourcing	14	.891
5	The Effect of Outsourcing on Organizational Performance of outsourcing	20	.935
<b>Entire Scale</b>		<b>65</b>	<b>.902</b>

Cronbach's coefficient alpha was calculated for each items and the entire questionnaire. The value of Cronbach's Alpha shows that all of the results fall in the range between 0.7 and 0.95 and are very acceptable. Also Cronbach's Alpha for the entire questionnaire shows the value of 0.902 which falls in an excellent rage and it indicates reliability of the entire questionnaire. Therefore, based on the test, the results for the items are reliable and acceptable.

### 4.3. Demographic Information of the Respondents

Table 4.2. Background Information of the Respondents

#	Item	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Gender</b>	Male	134	77.5	77.5	77.5
	Female	39	22.5	22.5	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	
<b>Age</b>	18-30	48	27.7	27.7	27.7
	31-45	112	64.7	64.7	92.5
	46-55	13	7.5	7.5	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	
<b>Educational level</b>	Bachelor Degree	95	54.9	54.9	54.9
	Above Degree	71	41.0	41.0	96.0
	Other	7	4.0	4.0	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	
<b>Experiences</b>	1-3 years	9	5.2	5.2	5.2
	4-6 years	25	14.5	14.5	19.7
	7-10 years	68	39.3	39.3	59.0
	Above 10 Years	71	41.0	41.0	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	
<b>Company Composition</b>	CBE	161	93.1	93.1	93.1
	DBE	12	6.9	6.9	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	
<b>Position of the Respondents</b>	Manager	134	77.5	77.5	77.5
	Senior	39	22.5	22.5	100.0
	<b>Total</b>	<b>173</b>	<b>100.0</b>	<b>100.0</b>	

When we look at the age of respondents from the above table, 48 (27.7%) were between the age of 18-30 years, 112 (64.7%) were between 31-41 years and 13 (7.5%) were between 46-55 years of age. There were no respondents above 55 years of age. 134 (77.50%) constitutes male and the rest 39 (22.50%) are female respondents from both banks; most responses were provided by male respondents. As the respondents are working on a senior and managerial position, their educational level begins from degree. Among those 95 (54.9%) were degree holders and the rest 78 (45.1%) were above degree on their educational status. Out of the total 173 respondents, 161 (93.1%) were from Commercial Bank of Ethiopia and 12 (6.9%) were from Development Bank of Ethiopia. 9, 25, 68 and 71 respondents which constitutes 5.2%, 14.5%, 39.3% and 41% have served their respective company for 1-3, 4-6, 7-10 and above 10 years respectively. As this research focuses on the practices of these banks and why they outsource their services, the main targets for gathering information were managers and seniors so 134 (77.5%) of the respondents were managers of different positions and 39 (22.5%) were seniors (team leaders).

#### 4.4. Awareness of the Respondents about Outsourcing

Table 4.3. Level of Awareness of the Respondents

		Awareness				Total
		High	Low	Medium	Very High	
Company	Commercial Bank of Ethiopia	66	3	72	20	161
	Development Bank of Ethiopia	8	0	3	1	12
Total		74	3	75	21	173
Percent		42.8	1.7	43.4	12.1	100.0

95 (54.9%) of the respondents have high knowhow and 75 (43.4%) have medium knowledge about outsourcing. From this we can say that the majority of the respondents have knowledge about outsourcing. This helps the researcher to get reliable responses from these respondents. However, 1.7% of the respondents are new to the concept of outsourcing. As we can see in the table majority of the respondents of the respective banks have knowledge about outsourcing.

#### 4.5. Description of the outsourced service

From the data gathered, the researcher found out that both banks have outsourced human resource part of the non clerical or non profession positions when they realize that cost of administering non-core activities was high. At DBE, the bank's management decided which type of services to be included in the outsourcing process through open bid method and the bank signs a contract with the service provider company; commercial nominees. Whereas, CBE studied the situation through a hired consultancy company and the management of the bank decided to give non core functions (non professional employees) to commercial nominees to provide the services, as the bank owns commercial nominees. As we can see both government banks gets the service from a common company; commercial nominees. According to the responses from the respondents of both banks, the most common ones of these non clerical positions are security, messenger, lobby person and cleaner.

#### 4.6. Employees attitude towards outsourcing

Table 4.4 Employees attitude towards outsourcing on different perspectives

No.	Employees Attitude Towards Outsourcing	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1	The bank outsourcing its services is a good business strategy	60 (34.7%)	45 (26.0%)	38 (22.0%)	27 (15.6%)	3 (1.7%)	173 (100%)
2	The decision made to outsource the services is the right one	33 (19.1%)	85 (49.1%)	23 (13.3%)	27 (15.6%)	5 (2.9%)	173 (100%)

3	The bank must not outsource at all	17 (9.8%)	36 (20.8%)	34 (19.7%)	53 (30.6%)	33 (19.1%)	173 (100%)
4	The bank should outsource other non-core functions or activities of the bank in addition to the services outsourced Currently	26 (15%)	56 (32.4%)	50 (28.9%)	34 (19.7%)	7 (4%)	173 (100%)
5	Customers are more satisfied by the bank after outsourcing.	1 (0.6%)	59 (34.1%)	66 (38.2%)	41 (23.7%)	6 (3.5%)	173 (100%)
6	Outsourcing helps the bank to save cost	34 (19.7%)	88 (50.9%)	28 (16.2%)	22 (12.7%)	1 (0.6%)	173 (100%)
7	Outsourcing has helped the bank to focus on its core activities	48 (27.7%)	84 (48.6%)	17 (9.8%)	24 (13.9%)	-	173 (100%)
8	Outsourcing has helped management to address developmental issues effectively	41 (23.7%)	80 (46.2%)	30 (17.3%)	22 (12.7%)	-	173 (100%)
9	Outsourcing helps the bank to improve its performance	48 (27.7%)	71 (41%)	27 (15.6%)	27 (15.6%)	-	173 (100%)

As it can be observed from the above table, majority of the respondents from both banks, 60 (34.7%) and 45 (26.0%), agreed that the bank's decision to outsource the services is a good business strategy for the bank. 22% of the respondents are not sure whether it's a good decision to outsource the services or not. The rest 17.3% of them said it's not a good decision to outsource the services. As the respondents pinpointed that there is service quality problem from the service provider. This hinders them to have a good perception towards the outsourced employees and the process at all. Also we can see that there are other services that the bank should outsource and take advantage of. Some of them as they said are maintenance of working materials and office facilities, distribution works, procurement and logistics must be outsourced so as the bank can be benefited out of by doing so; if the outsourcing and the service provider company have a good team alignment or cooperation. If the banks get a qualified service provider, it is willing to outsource these and other services in the future. 68.7% of the respondents of both banks believed that outsourcing contributed to the improvement of the performance of the bank. But 27 of the respondents didn't think that outsourcing contributed to the performance of the bank. This response shows there might be challenges regarding the outsourcing process or the services provided are not as expected.

#### 4.7. Drivers or Reasons of Outsourcing

Here we will look at the major reasons of outsourcing a service.

**Table 4.5. Drivers of Outsourcing**

No.	Drivers/Reasons for Outsourcing	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
1	To reduce cost.	-	31 (17.9%)	38 (22%)	63 (36.4%)	41 (23.7%)	173 (100%)
2	To improve service quality.	-	31 (17.9%)	25 (14.5%)	75 (43.4%)	42 (24.3%)	173 (100%)
3	To give more focus to core functions of the bank.	-	16 (9.2%)	33 (19.1%)	73 (42.2%)	51 (29.5%)	173 (100%)
4	To improve flexibility in utilizing resources	-	18 (10.4%)	44 (25.4%)	76 (43.9%)	35 (20.2%)	173 (100%)
5	To save manager's time and lead them to focus on strategies of the bank.	7 (4%)	27 (15.6%)	24 (13.9%)	69 (39.9%)	46 (26.6%)	173 (100%)
6	To assist the current fast growth situation of the bank	-	36 (20.8%)	27 (15.6%)	64 (37%)	46 (26.6%)	173 (100%)
7	To increase efficiency	3 (1.7%)	36 (20.8%)	19 (11%)	55 (31.8%)	66 (34.7%)	173 (100%)
8	To take advantage of the specialists' resources, capacity & expertise	2 (1.2%)	37 (21.4%)	43 (24.9%)	53 (30.6%)	38 (22%)	173 (100%)
9	To improve the company's competitive position	4 (2.3%)	37 (21.4%)	44 (25.4%)	48 (27.7%)	40 (23.1%)	173 (100%)
10	To reduce risk of providing the service in house	8 (4.6%)	40 (23.1%)	60 (34.7%)	31 (17.9%)	34 (19.7%)	173 (100%)

The majority (60.1%) of the respondents said the reason for outsourcing is to reduce cost of the banks. Also, from the interview of selected manager of Development bank of Ethiopia, the researcher gets information that the main reason for outsourcing the services is it requires high cost had it been handled in house. Also from the interview of manager of Commercial Bank of Ethiopia, the decision to outsource the services was made because it demands many costs as administration, benefit like medical, salary and other related costs. Also as 67.7% of the respondents agreed that the reason to outsource is to improve the service provided given the circumstances. However, 17.9% disagreed and the rest 14.5% of the respondents are neutral. As we can see from the table, 71.7% of the respondents from both banks agreed that the reason to outsource those services is for the banks to focus on their core strategies (functions). West Addis Ababa district Commercial Bank of Ethiopia human resource manager also mentioned in the interview that out of the common reasons for outsourcing, to focus on core functions is the main one. This is as a result of having time (saving time) of managers so as to concentrate on the banks strategic (core) issues.

As 66.5% of the respondents agreed that among the reasons for outsourcing, to save time of the management of the banks is one of them. As a result they are able to focus on their core tasks that contribute to the growth of the banks. The Development bank of Ethiopia's interviewee also pointed that out of the main reasons for outsourcing the services, saving management's time and burden for administering it are the main ones. This information is supported by 63.6% of the respondents as they agreed that the bank's decision to outsource is to assist for the fast growth of the banks. As managers have time on their hand and focus on the core functions, the banks are able to be productive than before. However, about 9.2% of the respondents disagree with the above respondents in a way that the reason to outsource is not to focus on the core functions and 19.6% also agreed that time saving is not the reason to outsource. Together with this 20.8% of them said to assist in the growth of the banks cannot be taken as a reason of the banks to outsource the services.

As the administration and different responsibilities are transferred to another company, the bank's saves some resources for its use. 64.1% of the respondents agreed that the reason to outsource is to enable the banks to be flexible in the utilization of the resources of the banks for other core functions. As the banks do not have to incur cost for the resources of the outsourced services, they can obtain resources from the service provider through the process through the service provided. 52.6% of the respondents support this idea that they believe the banks reason to outsource is to take advantage of specialized capacity and different expertise from the service provider. However, 22.6% disagree with them and the rest are on average status.

On the other hand, 37.6% of the respondents believed that among the reasons for outsourcing, to reduce the risk of providing the service is one of them. Since administration and other issues are handled by the service provider, the banks don't have the responsibility of dealing with the assigned employees, this will reduce the risk of conflict and other issues as well. However, 34.7% being not sure and 27.7% disagree on the point that risk reduction is the reason for outsourcing must be taken to consideration.

Half of the respondents also said that to gain competitive advantage, their respective banks outsourced those non-core services. As it was gathered through interview, because the bank's target was to gain a competitive advantage from outsourcing the services, it enables them to maximize their profits.

#### 4.8. Advantage or benefits of outsourcing

**Table 4.6. Advantages of Outsourcing**

No.	Advantages of Outsourcing	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
1	Reduced overheads and operational costs	5 (2.9%)	12 (6.9%)	25 (14.5%)	80 (46.2%)	51 (29.5%)	173 (100%)
2	Outsourcing helped the bank to focus on more strategic areas rather than non core activities	-	39 (22.5%)	21 (12.1%)	71 (41%)	42 (24.3%)	173 (100%)
3	Outsourcing helps the bank to access new skills not available internally	7 (4%)	47 (27.2%)	41 (23.7%)	46 (26.6%)	32 (18.5%)	173 (100%)
4	Improved Qualities	-	39 (22.5%)	52 (30.1%)	46 (26.6%)	36 (20.8%)	173 (100%)
5	Outsourcing saves management time and money through reducing the need to control day to day operations of the noncore function of activities of the bank	-	12 (6.9%)	37 (21.4%)	55 (31.8%)	69 (39.9%)	173 (100%)
6	Improves Flexibility	-	19 (11%)	59 (34.1%)	49 (28.3%)	46 (28.6%)	173 (100%)
7	Assist the fast expansion of the bank	-	28 (16.2%)	32 (18.5%)	71 (41%)	42 (24.3%)	173 (100%)
8	The service providers manage the service better than before outsourcing.	5 (2.9%)	25 (14.5%)	53 (30.6%)	55 (31.8%)	35 (20.2%)	173 (100%)
9	Outsourcing reduce risk	15 (8.7%)	32 (18.5%)	42 (24.3%)	48 (27.7%)	36 (20.8%)	173 (100%)
10	Outsourcing reduce budget allocation	7 (4%)	22 (12.7%)	38 (22%)	71 (41%)	35 (20.5%)	173 (100%)
11	Outsourcing brings less internal expertise	1 (0.6%)	44 (25.4%)	39 (22.5%)	62 (35.8%)	27 (15.6%)	173 (100%)
12	Outsourcing Security Service change fixed cost into variable costs	1 (0.6%)	22 (12.7%)	49 (28.3%)	56 (32.4%)	45 (26%)	173 (100%)

According to 75.7% (29.5% + 46.2%) of the respondents, outsourcing has contributed to reduce overhead and operational costs. Whereas, 14.5% are on average and the rest believed it does not reduce overhead and operational costs. However, as the majority of them and Commercial Bank of Ethiopia interviewee agreed outsourcing noncore services to another company helps the bank to reduce medical, insurance and other costs other than salary and other benefits. Due to the reduced cost, the banks are flexible in allocating resources. As we can see in the table, the banks gained advantage from outsourcing by being flexible in a way that it assists the bank to increase efficient allocation of resources. Outsourcing also enables

the banks to have flexible human resource management in a way that as the banks reduce cost, they are able to get some extra budget to expand their services and branches vastly. So as they open new branches they are concerned with only the professional ones, the non clerical human resources are taken care of by the service provider so it enables them to have a better management and decision making skill and time. Half of the respondents agree that outsourcing assist the banks to lead their companies in a better managerial way. Generally outsourcing enables the banks to improve operational performance, reduce cost and increase flexibility.

According to the majority of the respondents, outsourcing helped the banks to focus on their core strategies. As the management concentrate on core functions, outsourcing saves management time and money through reducing the need to control day to day operations of the noncore function of activities of the bank. This is supported by 71.7% of the respondents as well as shown in the table below. However, 6.9% of the respondents disagree with them and said it does not save time. As Commercial Bank of Ethiopia interviewee mentioned that some of the managers lack awareness about the outsourced employees and involve in their administrative issues. This may be the cause for this view.

We can also see that 31.2% of the respondents said they don't think new skills are gained by outsourcing those services to commercial nominees. About 45% of them disagree with them that they believe outsourcing does have an advantage in accessing new skills than before. Due to these new skills, the banks get fast decision and good control and supervision of the employees assigned which leads to good quality of the services provided. As it can be seen in the quality table below, almost half agreed and the other half disagreed that there is an improved quality of the services. From this it can be generalized that there are some improvements but not as expected.

#### 4.9. Challenges observed after outsourcing

**Table 4.7 Challenges of Outsourcing**

No.	Challenges of Outsourcing	Too High	High	Just Right	Low	Too Low	Total
1	Low Employee belongings	58 (33.5%)	55 (31.8%)	34 (19.7%)	14 (8.1%)	12 (6.9%)	173 (100%)
2	Conflict of interest	27 (15.6%)	79 (45.7%)	19 (11%)	33 (19.1%)	15 (8.7%)	173 (100%)
3	Difficult to measure service quality	24 (13.9%)	56 (32.4%)	58 (33.5%)	34 (19.7%)	1 (0.6%)	173 (100%)
4	Quality of the service provided by the supplier is lower than anticipated.	18 (10.4%)	53 (30.6%)	54 (31.2%)	48 (27.7%)	-	173 (100%)
5	Inconsistent service quality.	26	38	76	29	4	173

		(15%)	(22%)	(43.9%)	(16.8%)	(2.3%)	(100%)
<b>6</b>	The cost of the outsourced service increased through time more than expected.	21 (12.1%)	37 (21.4%)	64 (37%)	46 (26.6%)	5 (2.9%)	173 (100%)
<b>7</b>	Outsourcing brings about loss of managerial control over outsourced operations	17 (9.8%)	57 (32.9%)	48 (27.7%)	42 (24.3%)	9 (5.2%)	173 (100%)
<b>8</b>	Outsourcing has the tendency to affect the quality of operations of the bank	9 (5.2%)	56 (32.4%)	43 (24.9%)	48 (27.7%)	17 (9.8%)	173 (100%)
<b>9</b>	Outsourcing activities of the bank is a threat to security and confidentiality of the bank	18 (10.4%)	62 (35.8%)	55 (31.8%)	31 (17.9%)	7 (4%)	173 (100%)
<b>10</b>	Outsourcing has some hidden costs associated with it	15 (8.7%)	48 (27.7%)	70 (40.5%)	30 (17.3%)	10 (5.8%)	173 (100%)
<b>11</b>	Outsourcing activities reallocates existing teams and poses a challenge to the bank	28 (16.2%)	56 (32.4%)	47 (27.2%)	38 (22%)	4 (2.3%)	173 (100%)
<b>12</b>	Poor handling of the Bank's resource and high maintenance costs are occurred	21 (12.1%)	49 (28.3%)	44 (25.4%)	53 (30.6%)	6 (3.5%)	173 (100%)
<b>13</b>	Organizational citizenship and commitment decreased	42 (24.3%)	62 (35.8%)	28 (16.2%)	39 (22.5%)	2 (1.2%)	173 (100%)
<b>14</b>	High misalignment between the bank service requirement and capability of service provider	19 (11%)	51 (29.5%)	43 (24.9%)	52 (30.1%)	8 (4.6%)	173 (100%)

65.3% of the respondents believed that outsourcing have a cost of belongingness. As Commercial bank of Ethiopia's interviewee stressed out the point that it decreases a sense of belongingness of the employees regarding to the organization. The reason for this is because the salary of the assigned employees being low and this causes dissatisfaction of the employees. The other reason is that the banks staffs treat these employees with no respect. They feel an outsider to the organization so they lack belongingness to the banks.

This lack of belongingness later on results in decreased commitment of the employees. As we can observe from the above table, 60.1% of the respondents indicated that outsourced employees were not committed to their duties and responsibilities. 16.2% of them are on average status. However, 23.7% of them disagree on a point that the outsourced employees do not lack commitment to their responsibilities. This issue may be different for future researches because this data was gathered before the bank and the service provider company made some changes. As the researcher gets some information, there has been a change in salary and some benefits and there are some changes in their belongingness and they are committed to the banks.

Here 41% of the respondents agreed on a point that outsourcing those services do not bring additional advantage to the bank in service quality aspect. This is because the bank has many branches all over the country and the service provider is not as strong as it was expected. Also the service provider company is owned by the bank, this creates a paradox so it is difficult to measure the services and take action on the service provider company. Respondents from Development Bank of Ethiopia also think that there are some improvements but still there is a service quality problem. The majority of them agreed that outsourcing does not help the banks to focus on their core functions. This is because as the service quality is poor as we have seen in the previous table, the banks still involving in the operation of the process. As the researcher gathered information through interview, managers at different level lack a full knowledge about what their mandate is or is not. This means that once the banks outsourced the services to other company, managers are expected to contact their higher managers or the service provider company to get a service rather than involving themselves to the day to day work. So this resulted in consuming their time and they cannot concentrate on their core targets which in turn affects the performance of the banks.

Another challenge that the banks face after outsourcing is loss of managerial control over outsourced employees and operations. 74% of the respondents said that managers of the banks have only work related mandate over the employees assigned; meaning if an employee fails to fulfill his/her responsibilities or if the bank wants to take disciplinary action, the bank cannot do anything except report back to the service provider company since the service is outsourced and the assigned employee is administered by service provider company. This causes loss of control over the whole operations. All these other challenges faced add up to the conclusion that outsourcing has some hidden costs (tangible or intangible).

Both banks interviewees also added the point that the less capacity of the service provider and the unstable market forces affect the outsourcing activities of the banks in a way that the employees assigned at the banks lack experience and the service provider company is not fully equipped on the training and development part of the process. Also the market for these services are getting higher so the employees, being contract employees for the bank, increases their turnover rate as they get permanent positions at private banks. This affects the banks by poor service excellence.

Different documents and banks confidential things are open to these employees especially for messengers. According to 46.2% of the respondents, they have a concern that outsourcing brings a threat to security and confidentiality to the bank.

#### **4.10. The Effect of Outsourcing on the Performance of the Banks**

**Table 4.8. Performance of the Banks**

<b>No.</b>	<b>Effect of Outsourcing on the Performance of the Banks</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Total</b>
<b>1</b>	Outsourcing has reduced costs such as overheads and other fixed costs in my company	7 (4%)	37 (21.4%)	17 (9.8%)	88 (50.9%)	24 (13.9%)	173 (100%)
<b>2</b>	The cost of outsourcing is lower than the cost of acquiring more resources to do work internally	2 (1.2%)	27 (15.6%)	28 (16.2%)	94 (54.3%)	22 (12.7%)	173 (100%)
<b>3</b>	Outsourcing has reduced the risk of doing business	14 (8.1%)	36 (20.8%)	23 (13.3%)	81 (46.8%)	19 (11%)	173 (100%)
<b>4</b>	Since we started outsourcing, we have seen a great improvement in efficiency	8 (4.6%)	31 (17.9%)	38 (22%)	81 (46.8%)	15 (8.7%)	173 (100%)
<b>5</b>	Outsourcing has created better short term performance	-	39 (22.5%)	41 (23.7%)	87 (50.3%)	6 (3.5%)	173 (100%)
<b>6</b>	Outsourcing has created better intellectual value for our company in the long run	3 (1.7%)	30 (17.3%)	42 (24.3%)	80 (46.2%)	18 (10.4%)	173 (100%)
<b>7</b>	Outsourcing has created better long term performance	13 (7.5%)	20 (11.6%)	35 (20.2%)	83 (48%)	22 (12.7%)	173 (100%)
<b>8</b>	Outsourcing have an impact on the performance of the Bank	-	26 (15%)	32 (18.5%)	84 (48.6%)	31 (17.9%)	173 (100%)
<b>9</b>	Outsourcing have contributed to the performance of the Bank	8 (4.6%)	19 (11%)	17 (9.8%)	104 (60.1%)	25 (14.5%)	173 (100%)
<b>10</b>	Outsourcing have an advantageous impact on both the organization and individual employees	14 (8.1%)	35 (20.2%)	7 (4%)	80 (46.2%)	37 (21.4%)	173 (100%)
<b>11</b>	Outsourcing activities can improve individual employee attitudes such as job satisfaction, job commitment, engagement and perceived organizational support	41 (23.7%)	30 (17.3%)	32 (18.5%)	60 (34.7%)	10 (5.8%)	173 (100%)
<b>12</b>	Our customers are increasingly satisfied with our products	-	9 (5.2%)	44 (25.4%)	107 (61.8%)	13 (7.5%)	173 (100%)
<b>13</b>	We have a markedly high market share	10 (5.8%)	8 (4.6%)	50 (28.9%)	73 (42.2%)	22 (12.7%)	173 (100%)
<b>14</b>	Our profitability is higher than before	11 (6.4%)	7 (4%)	44 (25.4%)	76 (43.9%)	35 (20.4%)	173 (100%)

<b>15</b>	The performance of the business is satisfactory.	6 (3.5%)	25 (14.5%)	19 (11%)	96 (55.5%)	27 (15.6%)	173 (100%)
<b>16</b>	Generally, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales	1 (0.6%)	17 (9.8%)	59 (34.1%)	76 (43.9%)	20 (11.6%)	173 (100%)
<b>17</b>	Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies	2 (1.2%)	38 (22%)	43 (24.9%)	72 (41.6%)	18 (10.4%)	173 (100%)
<b>18</b>	Outsourcing has created flexibility in our organizational structure and strategy that has given us a competitive edge in the market	2 (1.2%)	27 (15.6%)	53 (30.6%)	67 (38.7%)	24 (13.9%)	173 (100%)
<b>19</b>	Our focus on our core competencies has been a major contributor to improved performance	3 (1.7%)	9 (5.2%)	29 (16.8%)	109 (63%)	23 (13.3%)	173 (100%)
<b>20</b>	Our focus on core competencies has created competitive advantage	1 (0.6%)	12 (6.9%)	35 (20.2%)	105 (60.7%)	20 (11.6%)	173 (100%)

64.8% of the respondents believed that after outsourcing none core services, their company reduced overheads and other fixed costs in a way that the cost of outsourcing is lower than the cost of acquiring more resources to do the work in house. However, some of the respondents disagree that outsourcing still have costs that the bank is forced to incur (hidden costs).

As outsourcing plays a major role in saving management's time and reduces the resources for non core activities, they are able to concentrate on the core functions and competencies of the banks and allocate resources so it increases the banks' performance. As the majority of the respondents (76.3%) agreed, the banks are able to focus on their core strategies and gain competitive advantage through its outsourcing strategy because of outsourcing the non core activities. As a result it has a positive impact on the performance of the banks.

Overall performance of the banks has improved after outsourcing as 66.5% of the respondents agreed. As DBE interviewee mentioned, as the bank gets more quality service (clean, secured ...) from the service provider, the bank's working environment will be suitable for employees of the bank which in turn boosts their morale and increase their commitment and the bank's performance improves. Since the banks are financial institutions, the security

service also helps the employees of the banks feel highly secured to fulfill their responsibilities.

As the costs are less, the banks employee's performance increases and the managements target is focused on core activities, the banks market share increases. This is reflected especially on CBE as shown in the table above. 60.9% of the respondents from CBE agreed that the banks market share has been higher than before after outsourcing; as we can witness from the branch expansion. Respondents from DBE also agreed on this issue but not like CBE. This improved market share led the banks to earn more profit than before.

As it can be seen here, 106 of the respondents from CBE agreed to the point that the profitability of the bank has increased due to outsourcing. Since it has an advantageous impact on organization and individual employees, job satisfaction and commitment is high which in turn attracts customers towards the bank and this directly contribute to the profitability of the banks.

## CHAPTER FIVE

### SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

This chapter summarizes the major findings of the research and point out some recommendations for future.

#### 5.1. Summary of Major Findings

- 60.7% of the respondents agreed that the bank's decision to outsource their non-core activities is a good business strategy
- 47.4% of the respondents agreed that the banks should outsource other non core activities in the future like maintenance of working materials and office facilities, distribution works, procurement and logistics,
- Out of many reasons/drivers that the banks outsource their noncore services and the benefits gained from it, according to 60.1% of the respondents the main reasons to outsource were to reduce cost, 66.5% of the respondents it was because to save managements' time, 71.7% of the respondents it was because to focus on core functions, 64.1% of the respondents it was because to be flexible in utilization of resources and to increase productivity of the banks. The data gathered also provide the information that 47.7% of the respondents it was because to get a quality service and 45.1% of the respondents it was because to access new skills and expertise from the service provider is also the reason to some extent as there exists a gap in quality service. 63.6% of the respondents agreed outsourcing also helped the banks in fast expansion of their services and branches.
- The banks also faced some challenges by outsourcing, like 65.3% of the respondents agreed outsourcing bring less belongingness of the employees towards the organization, 60.1% of the respondents agreed it bring less commitment to their responsibilities, even though there is some changes in the service provided, 41% of the respondents thinks there is still a quality service problem, 42.7% of the respondents agreed it brings less managerial control, lack of banks' managers awareness about outsourcing.
- 66.5% of the respondents believed outsourcing plays a major role for the overall performance of the banks.

#### 5.2. Conclusion

This study focused on outsourcing services in government owned banks which are Commercial Bank of Ethiopia and Development Bank of Ethiopia. These banks outsourced security, messenger, lobby person and cleaning services to Commercial Nominees Plc. The banks managers have a positive attitude towards outsourcing so outsourcing is a good

business strategy for the banks. This study also assessed that there exists a challenge in the process and also it has a tremendous benefits for the banks to attain fast growth. The high level of competition has called for most organizations to adopt outsourcing to transfer responsibilities of non core activities to service provider companies. Even though our country lately engages in such strategies, it plays a major role for those companies which adopt it. As Shniederjans and Cao, 2011 said outsourcing has a tendency to reduce operational cost of companies and also helps to maintain and develop key human resource personnel that are needed to manage and administer large size of work force, this has been proved right through this study in our country too. Outsourcing has benefited both banks in reducing costs of different aspects of the outsourced services. As Potkaany 2011 also pin pointed human resource outsourcing helps companies to get service at a cheaper price and offer them to focus on their main objectives and further invest in its core competencies and be effective. As these bank's managements burden has been reduced by outsourcing the time taking but yet non core activities, they are able to focus on more strategic issues and enable the bank to grow and expand branches as well as services. For example, CBE has introduced new service lines like mobile banking, CBE Birr ...services.

This study also enables the researcher to know that even though outsourcing has benefited these banks in so many levels, it brought challenges as well. Prasad 2013 emphasized that to be able to determine outsourcing human resource functions is a good strategy depends on the situation of the organizations and employees attitude. That is employee's perspectives, attitudes and behavior is very critical in organizational decision (Grimshaw and Miozzo, 2013). These government owned banks has faced such challenges as lack of belongingness of the employees towards the banks and this brings commitment problem to the tasks they are responsible for. The capacity of the service provider is another challenge that these banks came across with.

The assigned employees lack experiences to the positions they are assigned at and this resulted in low service quality. Also as these services are outsourced to commercial nominees, the managers of the banks lose managerial control over these operations. In contradiction, some managers of these banks lack knowledge about outsourcing process that they involve themselves in day to day (routine) operations of the outsourced services. This has caused administration problem for the service provider because it causes conflict of interest between the manager and the agreement that the service provider abide to. As Simon et al. (2009) argued that outsourcing brings security and controlling problem, these banks

also faces a challenge in confidentiality issues because as the employees lack belongingness to the banks, they may not be as honest to the bank's confidential documents.

The bank's main reasons to outsource are to reduce overhead and operational cost, to save managers time, to enable them to focus on the bank's core strategies, to be flexible in utilizing resources and to increase their productivity.

The effect of outsourcing on the overall performance of the banks is positive given the circumstances. It enables the banks to increase their profitability through focusing on core strategic issues by saving their time from the outsourced services.

### **5.3. Recommendation**

This study has assessed the overall status of outsourcing in government owned banks and came across with its benefits as well as challenges to these banks and also the reasons why these banks outsource their non-core services and it is indeed a good strategy for them. It is therefore recommended that management must strongly consider the way employees are treated. Together with this the banks and the service provider company has to agree on the terms to increase the employee's salary and benefits. By doing so, the banks can win employees belongingness and commitment which assist for the bank's improved performance. It is critical that the banks and the service provider company adjust clear responsibilities so they can know who is responsible for a particular task and the banks must aware their respective managers about the terms agreed on. Although the parties have realistic and clear goals, it is important that both parties maintain maximum transparency with each other. They should at all times know how each party is developing and the challenges that each party faces with regard to their relationship. This will lead to a trusting relationship between the company and the banks.

Since the service provider company (commercial nominees) is owned by CBE itself (as an investment), CBE must strengthen this company's capacity to re-gain a quality service in return in training and developmental aspects (to assign highly qualified employees), facilities and the like.

Although these banks' decision to outsource the non-core functions is a good business strategy, had it been studied vastly, there are still other non-core activities that tie up the management's time. So the banks must continue on their study and outsource more functions like maintenance, distribution, ... to specialized service providers to save time, cost and gain access to a well organized expertise by setting a strong qualification criteria for selecting the right outsourcing service provider company to get a quality service.

Sometimes the service provider company just focused on their business and loses a concern about the responsibility for their clients. This is a wrong perception about outsourcing which is all about earning more profit rather than providing a quality service. So legal requirements for such businesses must be strict and the government should implement strong procedures for follow up since these banks are established to meet some aspects of the government goals. Also the government must strengthen outsourcing strategy for these and other services as well. These banks also must arrange meetings with the service provider in a regular basis and follow up in a close manner to solve challenges that might affect the bank's operations which lead to lose of customers and employees due to lack of satisfaction. As the challenges faced are inter-related, by solving one of the problems, it can assist to solve the other problem too. Finally as the information gathered through interview, CBE outsourcing department has been lowered to a team status rather than department level by the new organizational structure. This has a negative effect on the service itself. So CBE must strengthen and give attention to this department in a way that it can do better than this so the bank can get a quality service. To sum up, these government owned banks has been benefited by outsourcing their non-core activities but still they have to improve their relationship with the service provider company and the employees assigned to them to get a quality service.

#### **5.4. Suggestions for Future Research**

This study has some limitations that could be taken in to consideration for future researches to be conducted in outsourcing areas. First this study is limited to government owned banks and also to the HR aspect of outsourcing only. It would be good to investigate and share private bank's experiences and other outsourced services and their operations. This study focused on why these banks outsource their non-core activities and if it is a good business strategy (whether it helps the banks to improve their productivity). It would be good to further study how it is managed in order to solve associated problems. Also the government's policy and procedures toward outsourcing is worth to do research on and indicate some directions that could strengthen outsourcing process and be taken as a major business strategy. Also the majority of the respondents are male so female composition at top managerial position is very few, so why female managers are few in government banks can be another issue to investigate

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## **Appendix I**

**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF MANAGEMENT**

**Dear Sir/Madam,**

I am an MSc Management student at Addis Ababa University. I am currently working on my thesis entitled, “**OUTSOURCING SERVICE IN GOVERNMENT OWNED BANKS: A CASE OF COMMERCIAL BANK OF ETHIOPIA AND DEVELOPMENT BANK OF ETHIOPIA**” in partial fulfillment of my Masters degree requirements. I have chosen your organization as one in which I want to carry out a survey in order to realize the purpose of my study because I believe your organization possesses the relevant information that will help me determine the answers to my research questions. The purpose of this description is, therefore, to request your assistance and permission to conduct the study in your organization and among staff, using a structured questionnaire.

Confidentiality of any information you provide shall be guaranteed and at no instance will it be used for any other purpose other than for this research.

Thank you for accepting to participate in this research. Your kind assistance and co-operation is very much appreciated in advance.

Yours Sincerely,

Tsega Taye Tirfie.

[tsegaa3t@gmail.com](mailto:tsegaa3t@gmail.com)

## Part I

Instruction: Put “circle” on the appropriate letter to signify your answer.

1. Sex:      A. Male                      B. Female
  
2. Age:      A.18-30              B.31-45              C. 46-55              D. Above 55
  
3. Educational level  
A. Diploma              B. Degree              C. Above degree              D. Other \_\_\_\_\_
  
4.            What is the name of your company?  
  
\_\_\_\_\_
  
5.            Year of Experience  
  
A. 1-3 years                      B. 4-6 years              C. 7-10 years              D. Above 10 years
  
6.            Job position  
  
\_\_\_\_\_
  
7.            What is your level of awareness about the concept of outsourcing?  
  
A.            Very low                                      D. High  
B.            Low    E. Very high  
C.            Medium

**Part III**

1. Questions related to **Employees Attitude** towards the outsourced services

(Please make (✓) in the best suited measures).

#	Employee Attitude on Outsourcing Services	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank outsourcing its services is a good business strategy					
2	The decision made to outsource the services is the right one					
3	The bank must not outsource at all					
4	The bank should outsource other non-core functions or activities of the bank in addition to the services outsourced Currently					
5	Customers are more satisfied by the bank after outsourcing.					
6	Outsourcing helps the bank to save cost					
7	Outsourcing has helped the bank to focus on its core activities					
8	Outsourcing has helped management to address developmental issues effectively					
9	Outsourcing helps the bank to improve its performance					

**If you have additional thing to say** \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

2. Questions related to the **Reasons/Drivers** of outsourcing services.

NO	Reasons for outsourcing	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	To reduce cost.					
2	To improve service quality.					
3	To give more focus to core functions of the bank.					
4	To improve flexibility in utilizing resources					
5	To save manager's time and lead them to focus on strategies of the bank.					
6	To assist the current fast growth situation of the bank					
7	To increase efficiency					
8	To take advantage of the specialists' resources, capacity & expertise					
9	To improve the company's competitive position					
10	To reduce risk of providing the service in house					

**If you have additional thing to say** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Questions related to the **Advantages/Benefits** of outsourcing services

#	Justification for making the decision	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	Reduced overheads and operational costs					
2	Outsourcing helped the bank to focus on more strategic areas rather than non core activities					
3	Outsourcing helps the bank to access new skills not available internally					
4	Improved Qualities					
5	Outsourcing saves management time and money through reducing the need to control day to day operations of the noncore function of activities of the bank					
6	Improves Flexibility					
7	Assist the fast expansion of the bank					
8	The service providers manage the service better than before outsourcing.					
9	Outsourcing reduce risk					
10	Outsourcing reduce budget allocation					
11	Outsourcing brings less internal expertise					
12	Outsourcing Security Service change fixed cost into variable costs					

If you have additional thing to say \_\_\_\_\_

\_\_\_\_\_

4. Questions related to the **Challenges** of outsourcing services

No.	Challenges of Outsourcing	Too High	High	Just Right	Low	Too Low
1	Low Employee belongings					
2	Conflict of interest					
3	Difficult to measure service quality					
4	Quality of the service provided by the supplier is lower than anticipated.					
5	Inconsistent service quality.					
6	The cost of the outsourced service increased through time more than expected.					
7	Outsourcing brings about loss of managerial control over outsourced operations					
8	Outsourcing has the tendency to affect the quality of operations of the bank					
9	Outsourcing activities of the bank is a threat to security and confidentiality of the bank					
10	Outsourcing has some hidden costs associated with it					
11	Outsourcing activities reallocates existing teams and poses a challenge to the bank					
12	Poor handling of the Bank's resource and high maintenance costs are occurred					
13	Organizational citizenship and commitment decreased					
14	High misalignment between the bank service requirement and capability of service provider					

**If you have additional thing to say** \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

5. Questions related to the **The Effect of Outsourcing on Organizational Performance** of outsourcing services

No.	Effect of Outsourcing on the Performance of the Banks	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Total
1	Outsourcing has reduced costs such as overheads and other fixed costs in my company						
2	The cost of outsourcing is lower than the cost of acquiring more resources to do work internally						
3	Outsourcing has reduced the risk of doing business						
4	Since we started outsourcing, we have seen a great improvement in efficiency						
5	Outsourcing has created better short term performance						
6	Outsourcing has created better intellectual value for our company in the long run						
7	Outsourcing has created better long term performance						
8	Outsourcing have an impact on the performance of the Bank						
9	Outsourcing have contributed to the performance of the Bank						
10	Outsourcing have an advantageous impact on both the organization and individual employees						
11	Outsourcing activities can improve individual employee attitudes such as job satisfaction, job commitment, engagement and perceived organizational support						
12	Our customers are increasingly satisfied with our products						
13	We have a markedly high market share						
14	Our profitability is higher than before						
15	The performance of the business is satisfactory.						
16	Generally, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales						
17	Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies						

<b>18</b>	Outsourcing has created flexibility in our organizational structure and strategy that has given us a competitive edge in the market						
<b>19</b>	Our focus on our core competencies has been a major contributor to improved performance						
<b>20</b>	Our focus on core competencies has created competitive advantage						

**If you have additional thing to say** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Appendix II

### *Interview Questions for the bank*

1. Why does the bank outsource the noncore services?
2. When did the bank start outsourcing non-core business functions?
3. What are the goals/objectives of outsourcing non-core business functions?
4. What strategies are adopted by the Bank in outsourcing its activities?
5. Can you identify any constraints that are affecting the effective application of those strategies in outsourcing the activities by the bank?
6. Have you compared employees output before and after management outsourced its operations?
7. Have you observed any improvement in the performance of employees after the bank outsourced its operations?
8. What role does outsourcing plays in the performance of the bank?
9. What is the effect of outsourcing on the operations of the bank?
10. How would you elaborate on the improvement of employees in terms of commitment to the work after outsourcing?
11. What risks and/or challenges and/or benefits are associated with outsourcing its services?
12. What type of measure did your organization take to solve problems faced during or after outsourcing? (If any)
13. Does the bank have a plan to outsource other non-core business activities in future?
14. What are the prospects of outsourcing?
15. What is the best practice that should be implemented by management for effective outsourcing?
16. If you have any comments and suggestions?