



THE EFFECT OF OUTSOURCING ON A COMPANY'S  
PERFORMANCE: IN A CASE OF ZEMEN BANK S.C.,

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A RESEARCH THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY  
SCHOOL OF COMMERCE IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF MASTER OF LOGISTICS AND  
SUPPLY CHAIN MANAGEMENT.

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JUNE, 2023

ADDIS ABABA, ETHIOPIA

## DECLARATIONS

I'm, Desalegn Kassahun, hereby declare that this thesis entitled "Effect Of Outsourcing On A Company's Performance In Case Of Zemen Bank S.C" is my original work and that it has not been submitted partially; or in full, by any other person for an award of any degree in any other university/institution.

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## APPROVAL

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## **ACRONYM**

RBV	Resource Based View
TCE	Transaction Cost Economies
SLAs	Service Level Agreements
SPSS	Statistic Package for Social Science
ANOVA	Analysis of Variance

## Acknowledgment

I am deeply grateful to my advisor, Tesfaye Belay (Ass. Prof.), for his unwavering support and guidance for this thesis. His expertise and patience have been invaluable to me and have played a crucial role in the success of this thesis.

I am grateful to the staff of Zemen Bank S.C., for providing me with the opportunity to conduct my research and for all of the resources and support they provided. I would also like to thank Dr. Busha Temesgen and Dr. Biniyam for serving as my thesis examiners and providing valuable feedback and suggestions. Their insights and guidance were instrumental in helping me to finalize the thesis as required.

I am deeply thankful to my friends and family i.e. My mother Yirefu Yirdaw, My Wife Yordanos Kidane, and My daughters Ruta, Emnet and Hiyab Desalegn My brother Samuel Gashahun and Alemayehu Wolde, Gash Hailu, Gash Lakew, Ayele Tibebu, Tariku Tamiru, Salih Mohammed, Abel Anteneh, Wondimagegn Lemma, Abiy Mulugeta, Gemechis Olana, Dr. Tariku Joba, Dr. Hintsu Matiwas, Dr. Wassihun Mohammed, Yifru Yirdaw, Tesfaye America, Eyob Tegegne, Alemayehu Teshale, Dereje Moges Techno brain and Henok Yizengaw for their love and support during this process. Without their encouragement and motivation, I would not have been able to complete this journey.

Finally, I would like to extend my sincere gratitude to all of the participants in my study. Their willingness to share their experiences and insights has been invaluable to my research and has helped to make this thesis a success.

Thank you for your time and contribution.

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## ABSTRACT

*The purpose of the study was to examine the effect of outsourcing on company performance in case of Zemen Bank with particular reference to head office. The objectives of the Study were to analyze the effect of cost-driven outsourcing on performance. Descriptive survey design was used in the research. The target population of 477 was drawn from the Professional Staff, Non Professional staffs and Managerial Staff, Zemen Bank head office using stratified random sampling and purposive sampling respectively. A sample size of 143 respondents was selected from the target population through simple random and purposive sampling techniques. The research instruments used in the study were questionnaires and interview schedule. Both content and construct validity of the research instruments was obtained. Qualitative data was recorded verbatim, transcribed and recorded in themes and sub-them. Questionnaires were used to gather data from the professional and non-professional staff while top management involved the use of interview schedule. Pilot testing of the study instruments was conducted. Cronbach's Alpha of Co-efficiency of at least 0.7 was obtained. From the analysis, the research instruments obtained an Alpha of co-efficiency of at least 0.907 which was within the minimum recommended in social sciences. Data analysis involved the use of statistical package for social sciences, SPSS, version 25. Both descriptive and inferential statistics was used in data analysis. Descriptive statistics included the use of frequency, percentages and mean while inferential statistics included the use of correlation, mathematical regression model, ANOVA test and multiple regressions analysis. As Pearson correlation coefficient result shows that there is positive and significant relationship between organization performance and focus - driven outsourcing ( $r = .178, P < 0.01$ ). And between organization performance and quality- driven outsourcing ( $r = .350, p < 0.01$ ). Focus and the performance of the bank is satisfactory have a significant moderate positive relationship as shown by correlation coefficient of ( $r = .403, P < 0.01$ ). There is a significant positive relationship between quality and the performance of the bank is satisfactory ( $r = .350, p < 0.01$ ). According to the regression analysis shows that one unit increases in cost driven 0.157. The result of quality driven outsourcing results in an increase 0.666. The final result 0.003 shows that one unit increase in the focus driven outsourcing results in an increase in Organizational performance by a factor of 0.003. Finally the researcher recommended Zemen Bank should outsource with a clear picture in mind as to why they want to outsource. Data was presented in the form of tables and cross tabulation. Data analysis was done at 95% confidence level and 0.5% significance.*

**key words:** *Outsourcing, Core Function, Organizational performance*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

In current age of globalization, outsourcing has become one of the most common and frequently used company techniques (Willcocks, 2010). According to research, outsourcing decisions are more strategically important than ever in a business today because of the sheer amount of money spent on it and the active participation of top management leaders. From basic information systems (IS) outsourcing to advanced strategic and transformational outsourcing, which involves outsourcing core and strategic business functions, there has been a trend of outsourcing among organizations across various industries since the 1980s (Schniederjans et al., 2007). According to Dun and Barometer (1998), According to studies, the worldwide outsourcing market increased from US \$146 billion in 1996 to US\$1.3 trillion in 2007 in terms of total contract value (Waagstein, 2011). Several global research agencies including KPMG Report (2010), Potter (2010) and Price waterhouse Coopers (2010) have stated that both the number of contracts and the average contract value of outsourcing engagements are expanding globally and will continue to do so.

Studies have been conducted by researchers; most of who agree that outsourcing will reduce cost and improve productivity amongst employees if it is strategically planned and well-managed (Kahouei et al, 2016). In another twist, researchers have argued that outsourcing causes poor service delivery, low-quality products, setbacks in procedures and processes, and sometimes leads to a high turnover of employees (Ellram and Tate, 2015). Outsourcing, however, has been accepted general as part of the business partnership for some organizations. There has been an emphasis that most of the criticisms on outsourcing have pondered on the changes it will impact on employees and the cost on the organizational structure; as it is a known fact that outsourcing impacts employee's productivity (Westphal and Sohal, 2016).

On the other hand, organizations that are globally recognized have expressed concerns about the impact of outsourcing on their corporate culture (Ramdhani, Ramdhan and Ainissyifa, 2017). Hickman and Silva (2018), inferred that some organizations had engaged the services of consultants to evaluate the effect of outsourcing on its corporate culture across the globe.

They want to ensure that the culture which has been nurtured over time is maintained and respected. This plays a crucial role in the growth and the employer branding of an organization, as it creates a positive vibe across multi-cultural dimensions.

Some scholars have focused on the benefits outsourcing has yielded when implemented (Ramkumar et al., 2016). This is because most organizations aim to make profit and the belief that stem amongst most organization is the financial benefit achieved when outsourcing is implemented (Kiptanui, 2018). It should however factor both the internal and the external cost while conceptualizing the part of the business that should be outsourced so as not to lose its market share and competitive advantage. Thus, some researchers have investigated the positivity of outsourcing and its usefulness in the business environment (Gurung and Prater, 2017).

Porter, (2008) described competitive advantage as the result realized from the effective performance of a business that is processed from an external supplier. A competitive advantage is said to be in place when a firm satisfies and offers its customers products and services that are of a higher standard in the marketplace compared to its competitors.

Due to increased globalization, outsourcing has emerged as one of the most crucial strategies that businesses should use. By using this tactic, they can gain a competitive advantage if their goods or services are implemented more successfully by outside service providers (Yang, Seongcheol, Changi, et al., 2007). A company must put an emphasis on its core capabilities and abilities in order to be able to adapt to market change and the challenges of anticipating the direction of such changes (McIvor, 2008). Outsourcing, which is the transfer of duties that should be carried out internally to an outside service provider, has emerged as a key element in many business strategies (Hern & Burke, 2006).

Moving personnel and tangible assets to a service provider is another form of outsourcing (McIvor, 2005). Companies are searching for new methods to create value as technology advances at an accelerated rate. In order to increase competition and enter new markets, businesses are embracing the outsourcing strategy (Elmuti, 2004). According to a study by (Elmuti, 2004), outsourcing has been used for cost-cutting over the past 20 years. Today, nevertheless, the emphasis is on raising productivity, adaptability, speed, talent, and access to new technology. Outsourcing, according to Malhorta (2013), does result in some issues. The

first issue an organization has is that outsourcing typically results in less control for the corporation. Outsourcing, however, can also result in a number of problems. Outsourcing limits a company's capacity to direct how particular services are delivered, which could increase its liability. Pearce and Robinson (2009) claim that outsourcing is the process of handing over administration and coordination of a function to outside parties. Future issues could result from this loss of control, such as delivery delays, subpar quality, customer complaints, and the leakage of key information about rivals. According to Lysons and Farrington (2006), issues with outsourcing include rising costs, an overdependence on suppliers, a lack of supplier flexibility, an inability of managers to manage suppliers, and unrealistic expectations of outsourcing providers as a result of overpromising during the negotiation stage.

This study evaluated the effect of outsourcing's cost, quality, and emphasis on organizational performance at Zemen Bank S.C.

## **1.2. Statement of the problem**

In the financial industry, outsourcing is a crucial tactic. It has developed from an efficiency-oriented plan of action to a growth-oriented, value-creating strategy (Rashid, AlAzad, Mohiuddin & Su, 2014).

Meixell et al., (2014) argues that outsourcing has moved from attending to a single function more efficiently, to reconfiguring a whole process to gain higher shareholder worth across the business. Different firms have taken up outsourcing, while some others have not probably because the benefits of adopting the outsourcing mechanisms may seem too good to be true. At the global level, Strange and Magnani (2017) evaluated and critically examined the effect of outsourcing on performance of financial sectors. Their study described mixed findings. Their study revealed that outsourcing in manufacturing firms could affect financial performance, productivity, efficiency costs, sales, innovations among other.

Other scholars like Davis H., (1964) critically assessed the effect of supply chain outsourcing on performance. The study maintained that supply chain-outsourcing has effects on operational performance. In addition, Joudaki et. al., (2015) determined that the practical implications for those involved in outsourcing investigations in the health sector. The study

result showed that the reasons for outsourcing included improved customer service, cost reduction, to ensure healthcare organizations rely on core activities and improved flexibility. Scholars like Pradabwong, et. al., (2017) also evaluated the causal effect link between Business Process Management, Supply Chain Collaboration, collaborative advantages and organisational performance. Their findings showed that business process outsourcing, and supply chain collaboration has effect on organizational performance.

Regionally, studies concerning outsourcing have been conducted. A research conducted in Ghana by Sarkodie and Olivia (2020) examined the causal effect relationship between outsourcing and organizational performance of the hotel industry. The study showed that outsourcing had led to improved profits, productivity, maintains competitiveness, encourages staff innovation and enables business to concentrate on their core areas. Similarly a study conducted by Bestman and Dagogo (2021) assessed the causal effect relationship between information system outsourcing and productivity of manufacturing companies in Nigeria. The research found out that information system outsourcing improved productivity of manufacturing companies. Researchers named Ayantoyinbo and Odepidan (2018) respectively evaluated the causal effect relationship between outsourcing of non-core activities on performance of organizations of bottling firms in Nigeria and their findings depicted that outsourcing packaging activities, transport activities, reverse logistics and procurement significantly affected the company's performance.

A research work in Kenya conducted by Kisilu and Gatari (2021) that evaluated the effect of strategic outsourcing approaches on the performance of manufacturing listed at SME also found that outsourcing directly affected the performance of the manufacturing companies. Another research work conducted by Kithinji, Gakure and Karanja (2017) also investigated the effects of outsourcing on the growth and expansion of SMEs in the dairy sector in Kenya and its finding revealed that outsourcing has a positive effect on the growth of the Dairy Enterprises. In the same country, a research conducted by Chemutai (2019) assessed the effect of outsourcing practices on the operational performance of real estate firms and its result depicted that outsourcing influences operational performance of real estate firms in terms of costs, quality of work and speed of work.

Locally in Ethiopia, a research work done by Mohammed, Abebe and Wondim (2019) also determined university community satisfaction due to outsourcing in selected universities in

Ethiopia. The result of this research depicted that outsourcing of non-core led to enhance resource management, decreased staff complains, operational and recruitment cost reduced, administrative burden decreased, timely and quality service improved. According to Gebre Kirstos' research (2020), outsourcing non-core business operations has a beneficial impact on the effectiveness of organizations. In a 2017 study, Tewodros Tenkir looked at how an Ethiopian commercial bank's performance will be affected by outsourcing non-core business functions. According to the findings of his study, Ethiopia's commercial bank performs better when non-core business operations are outsourced.

In spite of there exist a number of studies on the effect of outsourcing on company performance at a global and regional level, few studies conducted on the same topic in Ethiopia mainly in the financial sector.

Even though outsourcing has advantages for businesses, some financial institutions in Ethiopia, particularly those in the banking industry, haven't fully reaped these advantages and have faced challenges such as poor planning and ineffective service delivery.

Therefore, this study was build the existing knowledge and studies; hence, it aims to establish the impact of outsourcing on Zemen Bank S.C.'s success as a business.

### **1.3. Research gaps**

Few research on organizational performance were conducted in Ethiopia that dealt with outsourcing; instead, they focused on the advantages and difficulties of the practice. In the example of the Commercial Bank of Ethiopia, As of 2017, Betelhem Mekuriya conducted a study on the difficulties and potential of outsourcing methods. Three different types of measures are identified as essential elements in an outsourced measurement system by the study that focused on outsourcing organizational performance. By more effectively and efficiently utilizing financial, human, and management resources, Tewodros Tenkir (2017) made his study on the influence of outsourcing services on company performance in the case of Commercial Bank of Ethiopia. On five outsourcing factors, he concentrated. Security, janitorial, messenger, and driving functions are all dependent variables. Additionally, the performance of the company is an independent variable. Additionally, he employed

organizational performance metrics that were based on client happiness, service quality, effectiveness, and efficiency.

In 2019, Ahmed Seid Ethiopian Commodity Exchange's organizational effectiveness is affected by outsourcing non-core business activities. He concentrated on performance metrics for outsourcing, which identified 3(three) categories of performance metrics, like essential elements in any system for measuring outsourcing: financial performance, operating performance, and behavioral performance. Also, he attends classes at a different institution. Focusing on how outsourcing affects organizational effectiveness in the case of Zemen Bank S.C., this study fills in the gaps left by previous research on the issues linked to outsourcing. By concentrating on 4(four) variables, three independent and one dependent, performance was the dependent variable, and market share, sales, and profitability were used to measure performance. The independent variables were cost, quality, and focus.

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

This research aims to answer the following research questions.

- What is the effect of cost-driven outsourcing on the Company performance?
- To what extent quality Driven outsourcing affects the Company performance?
- What is the effect of focus-driven outsourcing on the Company performance?

#### **1.5. Research objectives**

##### **1.5.1. General objective of the study**

The general objective of this study is to examine the effect of outsourcing on company performance in the case of Zemen Bank S.C.,

##### **1.5.2. Specific objectives of the study**

- To analyse-the effect of cost-driven outsourcing on the performance of Zemen Bank S.C.
- To determine the effect of quality driven outsourcing on the performance of Zemen Bank S.C.,
- To analyse the effect of focus-driven outsourcing on organizational performance in the case of Zemen Bank S.C.,

#### **1.6. Definitions of Terms**

- **Outsourcing:** refers to the transferring all or a portion of a company to outside providers is a practice (Lievens and De Corte, 2008).

- **Company Performance:** are a set of predetermined aims the extent to which the organization succeeds?
- **Manager'** refers to team members including the President, Chiefs, Deputy Chiefs, Department Directors, branch managers, division managers, section heads or those who are in equivalent positions and conduct supervisions over the action of other employees.
- **'Leadership'** refers to the philosophy, style and practices of leadership being practiced in Zemen.
- **'Professional'** refers to the staff category assigned on job positions, which require Diploma graduation, and above; excluding those assigned in managerial positions.
- **'Non-Professional'** refers to the staff category assigned on job positions which require below Diploma level; excluding those assigned in managerial position that are in line with the company's mission (Gathungu and Mwangi, (2012)

### **1.7. Significance of the study**

The study on outsourcing's effects on performance is crucial because it assisted organizations using the technique in determining how outsourcing would affect their business. As Ethiopia's unemployment rate rises, the government is given more information to assess the outsourcing policies of businesses because these policies have an impact on job creation, which is important for Ethiopia's development. The research was designed to further educate businesses about outsourcing so that if a corporation chose to perform this style of operation, each choice is carefully explored. With the aid of the study, firms were able to determine the relative cost of outsourcing.

The study also aimed to supply the academic community with data that students in the associated field might use as a source of reference.

### **1.8. Scope of the study**

The study's geographic, subject, and time parameters are defined. The Zemen Bank S.C. headquarters are in Addis Abeba, and it concentrates on outsourced services. Additionally delimited with four variables: one dependent (business performance), three independent (cost-driven, quality-driven, focus-driven), and one independent (quality-driven). Therefore,

any inference made from this research is dependent on the facts mentioned above. Security, messenger, and janitorial services are all included in the list of outsourced services. However, there are other variables that can also be used to quantify outsourcing performance. As a result, the research's findings only provide a limited picture of how outsourcing performs, and other outsourced operations might also have an effect on Zemen Bank S.C. performance.

### **1.9. Limitation of the Study**

This study was conducted solely in the headquarters of Zemen Bank S.C. and didn't take the opinions of the service provider into account. result of time and money constraints. As a result, The study's findings might not paint a clear picture of the impact of all outsourced workers and services on productivity.

### **1.10. Organization of the study**

Five chapters made up the structure of the paper. The study's background was covered in Chapter 1 of the book. Introduction, problem statement, goal, extent, limitations, and importance of the research the portion where relevant survey of theoretical and empirical literature was reported was the focus of the second segment. The study's methodology is covered in more detail in the third section. This part of the article focused mostly on the data source, data gathering tools, and data processing techniques. The primary conclusions of the investigation were stated in detail in the result, which came next. The results and suggestions they're displayed in the final section.

# CHAPTER TWO

## 2. RELATED LITREATURE

### 2.1. Introduction

This chapter presents the literature review. It is divided into three sections according to the objectives of the study. Regarding the impact of outsourcing on organizational performance, the first portion discusses the theoretical underpinnings while the second section reviews the empirical literature.

### 2.2. Theoretical framework of the study

#### 2.2.1. Concept of outsourcing

The act of performing work, offering services, or producing goods for another organization that could have been or are typically handled internally is known as outsourcing. Companies generally employ it to reduce costs. Because the business environment is becoming more unpredictable, organizations are always looking for better ways to gain a competitive advantage. One strategy companies might employ to gain a sustainable competitive advantage is outsourcing. There has been a growing awareness of how crucial an outsourcing strategy is to an organization's performance during the previous 20 years Maku and Iravo (2013) state that although the use of outsourcing some time, until the late 1990s, information technology was the most common area of outsourcing. At that time, increasing operational efficiencies was frequently the only objective. Cox (2014) asserts that every business outsources to some extent. Various factors that differ from one company to another, including the requirement to spend money on new tools, abilities, and technology in any internal areas, determine which jobs are outsourced and which are kept in-house.

#### 2.2.2. History of Outsourcing

Companies have struggled with how to take advantage of their competitive advantage to expand their markets and their revenues ever since the Industrial Revolution. A huge integrated corporation that can "own, manage, and directly control" its assets served as the standard for the majority of the 20th century. The catchphrase during the 1950s and 1960s was diversification in order to widen corporate clientele and benefit from scale economies. Companies intended to secure their profits by diversification even though expansion needed numerous layers of management.

Consequently, a lack of adaptability brought on by bloated management structures hindered firms' attempts to compete globally in the 1970s and 1980s. Many large organizations adopted a new strategy of concentrating on their core business in order to boost their adaptability and innovation, which necessitated identifying crucial activities and selecting which might be outsourced (Handfield, 2006).

### **2.2.3. Initial Stages of Evolution**

Outsourcing wasn't formally acknowledged as a business strategy until 1989 (Handfield, 2006). But most businesses didn't run completely independently; they outsourced the jobs for which they lacked the necessary internal knowledge. For instance, publishing companies commonly purchase services for content, printing, and fulfilment. The initial phase of outsourcing development can be characterized as the use of outside suppliers for some essential but ancillary services. The next stage is contracting out support services. Companies began outsourcing those operations required to operate a firm but not directly related to the primary business as they began concentrating more on cost-cutting strategies in the 1990s. In order to practice "good housekeeping," management entered into agreements with new service providers to supply services like accounting, human resources, data processing, internal mail delivery, security, plant maintenance, and related ones. Outsourcing is yet another step that might lower the cost of important jobs as managers try to improve their financial status (Handfield, 2006).

### **2.2.4. In sourcing and Outsourcing**

The ways of distributing work among several departments or businesses for strategic purposes are outsourcing and insourcing. While outsourcing makes use of businesses that are not linked with the organization to carry out a specific work or duties, insourcing is often only done from within a company's own operational infrastructure. The term "sourcing" refers to the internal production by a business of a specific commodity required for its operations. By outsourcing, it means it purchases the material from a third party (Monczka et al., 2010). The decisions to undo prior buy-or-make decisions result in sourcing and outsourcing. Their primary strategy is to evaluate and contrast the advantages of insourcing vs outsourcing. The choice of supplier's influences expenses, but it also establishes the limits of what a company can do with its operations. Companies are more inclined to outsource activities deemed to be more marginal than they are to keep internal operations that are thought to be a part of their core activities (Johnson and Fearon, 2006).

### **2.2.5. Levels of outsourcing**

#### **Tactical outsourcing:**

The first level of outsourcing is tactical or conventional. When a corporation is faced with a particular issue, it selects tactical outsourcing. When a business is already having troubles, outsourcing is frequently considered as a quick fix. These problems include having insufficient funds to make capital investments. The competition that tactical outsourcing fosters between internal business operations and outside service providers. Many tactical alliances are made-up solutions intended to reduce expenses quickly, do away with the need for future investments, inject funds via the sale of assets, and lighten the burden of employment concerns. The value of external suppliers is understandable because successful tactical outsourcing depends on successful tactical interactions (Brown and Wilson, 2005).

#### **Strategic outsourcing**

Over time, as businesses develop and the goals of company and provider begin to spread apart, it becomes necessary to acquire superior value from outsourcing relationships. Managers then work to gain more control over all responsible functions, instead of losing control of outsourcing functions. For example, this level of outsourcing allows them to focus more on infrastructure matters rather than worrying about staffing issues. Strategic outsourcing focuses on creating long-standing business relationships. Companies work with a smaller group of the best service providers rather than having a great quantity of providers to perform the task required. This relationship often marks the beginning of a long-term partnership with a mutual benefit. Strategic outsourcing is an advanced approach to maintain organizations' premier value-creating actions, and its core competencies (Brown and Wilson, 2005).

#### **Transformational outsourcing**

Transformational outsourcing, or third level outsourcing, is used to redefine a firm. A cutting-edge strategy that enables a company to adapt to a changing market is transformational outsourcing. Business process outsourcing (BPO) and business transformation outsourcing (BTO) are combined in this proposal. It enables an institution to maintain leadership roles, create a lasting competitive advantage, and produce the most value possible for an organization. Transformational outsourcing addresses a variety of challenges, including strong governance, the development of business process knowledge, and properly prepared and managed service level agreements (SLAs). Compared to tactical outsourcing, the levels of risk in strategic and transformational outsourcing are higher, but they are typically shared

with the outsourcing partner. Before an arrangement in this direction can start, tested risk mitigation measures, strong security standards.

### **2.2.6. Process of Outsourcing**

Not all business functions should be delegated to outside parties, and outsourcing is not always the best course of action for every organization. Some processes can be outsourced regardless of the size of the business. While BPO was primarily a tool for big businesses to save expenses in particular, today every organization can gain from outsourcing (Duening and Click 2005, p. 35). A typical outsourcing program has four basic components, according to Robert (2006): program initiation, service implementation, final agreement, and program closure.

### **2.2.7. Program Initiation**

Any outsourcing program begins with a variety of ideas and viewpoints regarding the objective and reach of the program, the program's intended outcome, and the program's implementation. Taken together, these concepts and intents serve as the framework for a draft contract at the program initiation stage (Robert, 2006).

The first step in the commencement stage is choosing which function should be outsourced and making that decision. The internal corporate decision-maker for outsourcing depends heavily on the nature of the functions. Lower level managers may choose to outsource similar tasks, but for important choices involving significant layoffs or cost savings, a company's board of directors may be asked to cast a vote. In other words, top management should make all decisions on outsourcing, with the exception of the least important functions (Bragg, 1998).

### **2.2.8. Service Implementation**

The process of turning these thoughts and intentions into a formal, planned outsourcing program and implementing the outsourced function is referred to as service implementation. The following actions are specifically included in this list: defining the transition project, staff transfers, defining the service level agreement (SLA), defining service reporting, implementing and turning over the service, and implementing service management processes (Robert, 2006).

The institution's established requirements for the service are outlined in service level agreements, which also establish incentives to satisfy them or consequences for not doing so.

In order to safeguard themselves against service provider performance failures, financial organizations should attach SLAs to contract clauses addressing incentives, fines, and contract cancellation, according to the federal financial institutions assessment council (2004).

According to Duening and Click (2005), in order to appropriately connect the financial interests of the vendor and the business purpose of the customer, service level must be closely related to price. These two authors get the same conclusion: quality, particularly in situations with fixed prices, is a better indicator of service level than quantity. The continuity of service must be upheld at all times, the quality of the delivery must not be compromised, and deadlines and timeframes must not be missed during the handover phase (Robert, 2006).

### **2.2.9. Final Agreement**

Typically, the draft contract created at the Initiation step is changed during the negotiation process, and the final Contract is created once the cycle of discussions is over.

### **2.2.10. Program Closure**

The need to terminate an outsourcing partnership can occur for a number of reasons, according to Bragg (1998). The service provider gave the service in the proper quality and price as promised as per the service level agreement (SLA), and the outsourcer only had a short-term requirement for the service being provided. When an outsourcer removes a service from a provider, it is a friendly situation. When management believes a supplier is not providing the level of service that was promised at the beginning of the contract, the second reason is more likely to result in disagreements. In this situation, if there isn't a specific list of obligations that both parties have agreed upon in advance, the breakup of the relationship could turn violent and require legal action.

This choice should instead be based on performance metrics that have been examined, validated, and accepted by the outsourcer and the provider. The third reason is that top management may have to decide to end an outsourcing deal due to claims that it will cost more than anticipated. However, management should compare the present cost of utilizing the provider to the baseline cost for the outsourced service before it was given to a supplier.

### **2.2.11. The Cost and Benefit of Outsourcing**

Dickstein and Flast (2009), who were quoted by Abebe (2015), claim that outsourcing has both advantages and disadvantages as well as costs. However, the ability of the service receiver to examine the function and the service provider's commitment to providing the service in accordance with earlier agreements determine how the two are balanced. Beyond the activities of the two parties, outsourcing has additional costs and benefits that are tied to the nature of outsourcing itself. Let's look at some of the points made by various authors in relation to this.

#### **Cost of outsourcing**

##### **A. Cost of Transaction**

The initial expenditures of outsourcing include vendor search expenses. Regarding this, market participants must learn about customers, their tastes, and their budget in order to have a complete understanding of their counterpart on the other side of the transaction. According to Dickstein and Flast (2009), the start-up, transition, and management costs will rise since the service provider or outsourcer may lack managerial experience. In a similar vein, learning about potential sellers is dangerous. This is especially true for service outsourcing, which is appraised by clients based on past performance (Domberger, 1998). During outsourcing, there are implicit and explicit costs associated with the search and selection of the service provider. The following are some examples of the explicit costs: formulating specifications, creating contracts, conferring with pertinent end users, publishing the invitation to bid, assessing the bid, and concluding the discussions with the successful bidder. Senior management time is required for each of them. These transaction costs have been estimated to range from 1% to 5% of the contract prices.

However, hidden costs arise since it is impossible to predict all potential future events. According to Dickstein and Flast (2009), some of the causes of implicit cost include service degradation or deterioration brought on by inexperience, work complexity, and an overwhelming number of clients. The specification may need to be revised, the quantity specified in the contract may need to be increased or decreased, the quality may need to be adjusted upward or downward, or another dimension may need to be reviewed, depending on the type of outsourced service or product involved. Costs rise as a result of such activities. This type of discussion not only results in cost increases but also takes up important management time and is challenging to settle (Domberger, 1998).

## **B. Cost of Monitoring**

According to Domberger (1998), the client wants to get the most value for their money from the contract whereas the service provider's primary purpose is to earn a profit. These two parties' interests obviously differ from one another. As long as the client or outsourcer is unaware of the action, As a result, there is an incentive to exert as little effort as possible. The service provider stands to earn from the reduction in resources. The client must step up their monitoring of service provider performance in order to reduce this incentive. As a result, it is inherently more expensive to monitor contractors than it is to monitor internal service providers.

## **C. Loss of Control**

The perceived loss of control is a significant cost of outsourcing. Many managers hold to the belief that control entails ownership. If complementary assets are owned separately while outsourcing, the cost will be greater and the efficiency will be worse compared to when they have a single owner. This implies that a loss of control as a result of dispersed ownership means increased costs or inefficiencies, according to Domberger (1998). According to Alex Bank (2010), the vendor may also hire personnel who are not qualified or who are qualified depending on his judgement owing to a lack of direct control over human resources, which would ultimately lower the quality of service.

Dickstein and Flast (2009) assert that loss of organizational competency occurs when core services predominate over context or when in-house and externally sourced services are interdependent. At the conclusion of a contract, when the outsourcer is aware that they are no longer performing the activities that were outsourced, this is felt most strongly.

Wilson and Brown (2005) added that outsourcing faces obstacles just like any powerful instrument does in addition to what was said above by other authors. The three biggest outsourcing issues in this regard are selecting the ideal partner, establishing efficient governance for the collaboration, and sensitively handling staff transfer.

## **Benefits of outsourcing**

There are several options for outsourcing today. There are many contractors on the market who are willing to offer their best services for the lowest price. Companies use their services to get a variety of advantages. The justification for outsourcing is what leads to the advantage

of outsourcing. As a result, the majority of justifications for outsourcing are also advantages of outsourcing. The four advantages of outsourcing, according to Domberger (1998), are specialization, flexibility, cost savings, and market discipline.

Cost savings, Focus on Core Business, Cost Restructuring, Improved Quality, Knowledge, Operational Expertise, Access to Talent, Capacity Management, Catalyst for Change, Enhance Capacity for Innovation, Reduce Time to Market, Risk Management, Venture Capital, Tax Benefit, Scalability, and Creating Leisure Time are Considered as the Major Benefits of Outsourcing Ashirefa, et al. (2010) cite research done in 2004 by the Trestle Group.

### **Challenges of Outsourcing**

Organizations that think about outsourcing may confront a number of difficulties. One of these issues entails organizational failure. Outsourcing some of the non-core business activities or functions can significantly boost the company's competitive edge, just like any other business practice. The ability of outsourcing to significantly lower overall business expenses is the source of the competitive advantage. With certain commercial objectives in mind, organizations may decide to outsource. The necessity to boost financial performance could be the goal (McCray, 2008).

Businesses may fail to recognize that outsourcing companies may present them with a chance to work for less money because to effective technology and economies of scale. Businesses could also be unaware of how cutting costs helps firms reach their financial objectives and improves organizational performance. The excess money that would have been passed on to consumers in the form of higher pricing for goods and services is absorbed as consumers pay less for their commodities if corporations are successful in cutting costs through outsourcing. Lack of recognition of outsourcing as an alternative business model may prevent companies from competing successfully on the basis of pricing, which is likely to be detrimental to the company (McCray, 2008).

According to Quinn (2000), identifying and evaluating the operations that can be outsourced is another significant barrier that businesses must overcome. They contend that companies that carry out all of their operations internally without outsourcing risk having to replace outdated technology with newer models that may not be as useful in the near future.

However, it is also crucial to carefully consider which tasks can be carried out internally and which ones should be outsourced. Although exporting some tasks might give a company a huge reprieve and save losses, outsourcing other tasks can also seriously harm the company if proper consideration is not given to them. Due to the fact that outsourcing typically results in less control over how specific services are provided, it can also present liability risks for the firm (Steensma and Corley, 2000).

Only companies that can clearly define the goals they will succeed in outsourcing if they have realistic goals and expectations for their outsourcing operations, which will be the most advantageous and helpful aspects of their outsourcing attempt. Poor experiences will only result from a careless implementation of the outsourcing strategy without clear goals and expectations (Nayak et al., 2007).

Kremic et al. (2006) cite conflict of interest, poor contract or partner selection, loss of knowledge/skills and/or corporate memory and the difficulty in regaining a function, loss of control/core competence, supplier problems (poor performance or bad relations, opportunistic behavior, not, Losing customers, opportunities, or reputation, and poor morale/employee issues as the major challenges of outsourcing.

## **2.3. Theories related to outsourcing**

### **2.3.1. Resource Based View Theory (RBV)**

From the perspective of the connection between the service provider and service recipient, outsourcing can be explained. The resource-based view (RBV) examines additional factors while considering internal strengths and shortcomings. For a given business activity, Core competencies and competitive advantage of a corporation are determined by its resource viewpoint. According to RBV, resources include both tangible and intangible assets.

Some of these resources include procedures, all of the company's assets, knowledge, and abilities that are within the control of its employees (Roy & Aubert, 2001). This hypothesis (Kutsikos & Mentzas, 2011) explains decisions made by the organization during the Relationship Management and re-evaluation phases. Depending on the structure and operating procedures of an organization, the capabilities may be used as cross-functional capabilities or as functional capabilities (IT, production, exploration, etc.). Since competitive

advantage in the oil and gas business comes from physical assets, RBV is crucial to our study, which are the result of the combination of tangible assets, functional assets, and intangible assets like reputation and intellectual property (IP). The types of talents that distinguish one company from another in the fiercely competitive oil and gas industry are composite bundles of skills that are necessary to address pressing problems but difficult to create and duplicate. RBV theory puts more emphasis on the firm's internal resource rather than external opportunities and threats created by industry conditions. The theory maintains that in order to generate sustainable competitive advantage a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable and not readily obtainable from markets. The theory also relies on two key points; first those resources are determinants of firm performance and second that resources must be rare, valuable, difficult to imitate and no substitutable by other rare resources.

### **2.3.2. Transaction Cost Economic (TCE) Theory**

Transaction costs are the costs incurred in the process of trading i.e. the process of selling and buying above the price of the product that is being traded. Transaction costs are expenses spent throughout the trading process, such as during the selling When buying, paying more than the market value of the item being exchanged. A few examples of transaction costs are legal fees, communication charges, labor charges (Paul, 2012).

The excessive Due to the necessity to reduce costs, transaction cost economics (TCE) is the theory most frequently applied in outsourcing (Perunovic & Pedersen, 2007). When businesses seek to reduce their transactional and production costs, TCE is the optimal approach to use (Michael & Michael, 2011).

TCE focuses on the idea that the characteristics of a transaction (union, market, and hierarchy) that will be used to create the type of governance structure (McIvor, 2009). Transaction costs, according to previous studies, can deter high frequency trading in the crude oil market. If the transaction costs are substantial, the value of the basis as a forecast of change in the current price may be seriously affected (Stevens, 2014).

Williamson described Transaction costs may result from two sources, including limited rationality, or the inability of humans to predict every aspect of a transaction. The risk of taking advantage refers to the possibility that one party will profit from sudden changes in the

circumstances surrounding the transaction by exploiting the circumstance and gaining an unfair advantage. There are three critical variables to characterize a transaction: the dilemma under which the transaction takes place, the level of transaction of specific investment and the rate at which that transaction occurs (Williamson, 1979, Yang et al, 2012). Analyzing TCE from the perspective of the decision to “make or buy,” managers will execute the organizational form that reduces transaction costs (Hoek, 2000).

### **2.3.3. Core competency Concept**

This approach contends that business operations ought to be carried out either internally or by outside service providers. It is based on the decision to make or buy. Consider outsourcing non-core work to the most qualified specialized service providers in that field. The few non-core tasks that significantly affect competitive advantage should be kept in-house, nevertheless. This idea outlines the steps businesses should take to gain a competitive edge in the marketplace. Companies must capitalize on their competences, or the areas or functions in which they excel (Prachi, 2018).

Typically, core and noncore organizational talents are separated into categories. In contrast to non-core competencies, which are directly connected to the production of goods and services, core competencies are roles that are directly integrated into the development of goods and services (Power et al., 2006). Typically, decision-makers choose to keep the most important tasks in-house while outsourcing the less important ones to outside service providers (Arnold, 2000). Core competences are the general grasp of the production system in issue, including the knowledge of procedures and the best techniques for integrating and optimizing them. The practice of outsourcing non-core competences is becoming more and more significant as it places duties like maintenance and transportation operations in the hands of suppliers who are best prepared to carry them out successfully (Chandra & Kumar, 2000). According to Lavina and Ross (2003), a key element affecting the effectiveness of an outsourcing contract is the competency of the vendors.

### **2.3.4. Contractual Theory**

A legally binding contract that establishes the institutional framework and spells out each party's rights, obligations, and responsibilities is necessary for the implementation of an outsourcing plan. The agreement's aims, policies, methods, and strategies are all laid out in detail in the contract. The outsourcing agreement's goals are to ensure proper service

exchange between the parties, avoid misunderstandings, forbid moral hazard in a cooperative setting, and safeguard each party's confidential information. Contracts that are properly drafted eliminate risks associated with non-performance and misunderstandings, as well as the uncertainty that may be present during the decision-making process of the business. A process for resolving disputes is outlined in the contract (Luo, 2002). (Willcocks & Kem, 2000) Legal professionals stress the need for a thorough contract that may serve as a reference point outlining the relationship between the client and the vendor.

## **2.4. Organization Performance**

The word "organizational performance" is broad, the subject is unsettled, and there are few definitions and studies on metrics. Performance of an organization is a crucial criterion that is frequently stated as a dependent variable that aims to induce changes in performance. The essential elements for an organization's performance consist of having access to the appropriate information and abilities, sound planning, creativity, and adaptability. Innovation, reactivity, and staff development are examples of non-financial performance indicators, whereas financial performance measurements include return on equity, profit, return on assets, and market share. Gathungu and Mwangi's (2012) study suggests that by examining technology, investigating markets, and talking to customers, a company can identify and evaluate opportunities inside its environment by perceiving its capabilities.

### **Indicators of organizational performance**

#### **i. Efficiency in terms of costs**

When it is thought that some tasks may be performed more quickly, more affordably, or better by an outside service provider, organizations should consider outsourcing (Barthelmy and Adsit, 2003). Contracting out is an option for duties that are not the organization's core strengths. However, any ability or information that enables a business to better serve its clientele and that aligns with the goods or services it is aiming to offer must stay in-house. Cost effectiveness is still the primary justification for outsourcing's advancement. Companies evaluate outsourcing to determine whether current operating expenses can be reduced and whether funds can be reinvested in more competitive businesses. (2002, P. 12) Maudos et al According to some researchers, outsourcing is a crucial means of cost reduction for businesses to access economies of scale and the unique expertise that a large outsourcing vendor can provide, all of which will improve business performance (Isaksson and Lantz, 2015, p. 9). According to a research by Jiang, Frazier, and Prater (2006), outsourcing

contracts transfer an organization's assets to a service provider who can turn operational costs and fixed costs into variable costs. By arranging for the development of skills and expertise as needed, outsourcing can lower engagement of fixed costs, human resource costs, and other overhead costs from the application perspective.

(A) **Cost reduction:** The literature outlines a number of benefits of outsourcing, including lower prices, improved quality, and increased capacity (Yu and Lindsay, 2011, p. 121). According to Elliott (2006, p. 22), the majority of the time, outsourcing is done to reduce expenses by 20%, with the actual savings coming from direct labor and variable costs.

(B) **Saving labor cost:** Klaas et al. (2001, P. 52) emphasized on the fact that outsourcing can be used to reduce manufacturing costs, particularly by replacing in-house production with the purchase of components. Additionally, they noted that companies that handle everything themselves incur far higher costs for marketing, research, and delivery, all of which must be passed along to customers.

(C) **Focusing human resources:** By outsourcing, you can put more of your human resources where you most need them. According to Linder (2004, P. 22), most businesses just can't compete with the in-house support services that large corporations oversee. By giving them access to the same economies of scale, resources, and expertise that giant corporations use, outsourcing can help small businesses "act big."

(D) **Cost-effective:** Senior management typically finds outside organizations to be more cost-effective, which is why senior management occasionally chooses to assign outside corporations with crucial tasks. Upper management has a different perspective on things than intermediate managers, who frequently claim that they can hire someone to do it for less money. They are aware that they will typically pay at least less per hour if they outsource, but they also believe the work will be completed on schedule and in the desired manner. If not, they can find someone else without having to deal with the challenges or frustrations of hiring and terminating staff. The requirement for outsourcing is influenced by the vision, function, and economics (Greee et al., 1999, P. 46).

(E) **Convert fixed cost to variable cost:** The possibility of converting fixed expenditures into variable costs is the third economic justification for outsourcing. For instance, a business may produce internal parts for its service, but it is not necessary to do so often throughout the

year, preferably only a few times. Obtaining those components from outside may not be difficult in the slightest. Even if there is little demand, maintaining capacity costs money all year long. One approach to addressing this issue is outsourcing. (McCarthy and Anagnostou, 2004, P. 37). Costs can be minimized and investments in machinery and equipment can be scaled back by outsourcing services (Gilley and Rasheed, 2000, p. 24). By reducing fixed expenses and turning them into variable costs, this decreased investment in the capacity for providing services (Ibid; Kakabadse & Kakabadse, 2000).

The commercial ramifications of changing fixed expenses to variable costs can be seen in increased return on assets (ROA) and net profit (Kumar and Eickhoff, 2005, P. 83). Jiang, Frazier, and Prater (2006) did not discover enough data to draw the conclusion that outsourcing increases an organization's productivity, though.

## **ii. Productivity**

Productivity, according to Windrum et al. (2009, P. 35), measures the quantity of outputs and inputs. Inputs are measured by the number of people, total assets, or inventory required to produce the output, whereas output is determined by the organization's total revenue or sales. According to Fixler and Siegel (1999, p. 105), productivity is a performance measure that accounts for the costs associated with achieving a particular performance level. According to Shields & Brown (2015), organizational productivity refers to a company's capacity to produce desired results with the least amount of resources (energy, time, money, personnel, and materials).

The effect of outsourcing on productivity, as stated by Okeke-Ezeanyanwu (2017, P. 27), is to boost productivity, returns, and capacity or quality for business output. The process of outsourcing is thought to increase productivity. The productivity advantages of outsourcing, however, are often never fully realized by many firms. When outsourcing is seen as a temporary or tactical solution rather than an integral component of long-term strategic plans, the relationship between outsourcing and productivity fails. The choice must be well-considered if outsourcing is to be effective in raising or improving productivity. In the hands of dependable management, solid information can help avoid taking an expensive decision that is difficult to undo.

### **iii. Profitability**

Profitability is related to how well a business or sector generates revenue (Adu-Gyamfi, 2015, P. 9). It is a statistic that shows how well an organization is doing in terms of its ability to make profit. It is the amount of output per unit of input (labor, equipment, and capital), or the ability of a corporation to generate net income. The ability to make a profit is commonly referred to as profitability. The profitability calculation is equivalent to  $\text{Gross Profit/Net Sales} \times 100$ . The company's income statement serves as the source of both elements in the calculation.

According to Görg and Hanley (2004, p.114), profitability is affected by outsourcing in three ways: value enhancement, a rise in competition brought on by the adoption of a new technology, and profitability margin. Whether outsourcing adds value or, more specifically, whether the company beginning the outsourcing reflects better profitability as a result, is a crucial question to consider. According to some researchers' best knowledge, relatively few precise statistical or econometric studies have looked at or investigated this subject. However, Chaffey (2008, p. 31) believes that the value-enhancing relationship between outsourcing and profitability is not precisely determined or explained despite the fact that the data has been created in several articles.

In particular, Marjit and Mukherjee (2008, P.12) did not present any evidence that outsourcing resulted in increased revenues in Japanese service organizations. With regard to the distinction between outsourcing of services and non-services inputs, Gorzing and Stephan (2002, p. 13) discovered that while there is a negative relationship between profitability and outsourced services for a sample of German service organizations, outsourcing of materials is positively correlated with profits. Because of the increased competition, firms are currently pushed to look for new ways to produce value. In order to expand into new areas, businesses have adopted the outsourcing strategy and its guiding principles in today's world (Quinn, 2000, p. 5).

## **2.5. Empirical Review**

### **2.5.1. How Cost-Driven Outsourcing Affects Organizational Performance**

In the last few decades, companies have increasingly outsourced their non-core business operations to outside service providers. Information technology management, support services, manufacturing, logistics, and customer assistance are among the areas that have experienced significant outsourcing. By cutting costs and concentrating on core capabilities, outsourcing has mostly been done to maintain a competitive edge (Zhao, Xue & Zhang, 2014).

It is widely believed that this tendency will continue in the near future. Outsourcing has currently evolved into a strategic tool in the global economy. According to Kenyon and Meixell (2011), outsourcing is more successful in foreign markets when labor costs and operating expenses are lower. But as Insinga and Werle (2000) point out, operational-level outsourcing can quickly result in the formation of dependencies that produce unanticipated strategic weaknesses. There is no question that outsourcing can be strategically useful. The most crucial factor, however, is the realization of the strategic value that, if handled properly, outsourcing can bring to any firm.

The actual risk of outsourcing, according to Insinga and Werle (2000), is that the company would lose sight of its strategic goals in the daily flurry of activity. In order to prevent losing sight of the strategic goal, they further claim that businesses must institutionalize a solid decision-making process to govern the outsourcing relationship in a way that strongly connects the operational to the strategic.

### **2.5.2. The relationship of Quality-Driven Outsourcing and Performance**

**Quality:-** The term "quality" refers to all of the characteristics of goods and components that satisfy the intended purpose while being the most reasonably priced. It is outstanding, deserving, and fitting. Doubler (2000 film). Delivering high-quality services is a major objective for practically any company. Customers may place a high value on the service quality when deciding which business to hire to satisfy their needs. Customers have expectations for the level of satisfaction they will get from the companies they choose to do business with, and it can be difficult to improve your quality of service if you don't have input from them on how to accomplish it. As a result, a crucial part of nearly any company's strategy should be gathering client feedback and using it to evaluate service quality.

Every organization has finite resources, and each management has finite amounts of time and attention, claim D'Aveni and Ravenscraft (1994). Outsourcing can assist managers in setting more exact priorities by moving your company's focus away from irrelevant chores and toward work that benefits the consumer.

Muweesi (2011) claims that effective outsourcing strategy execution has been linked to capacity expansion, capacity improvement, and quality improvement. Outsourcing was primarily done to reduce labor costs, but it also improves operational efficiency. According to Kok and Richardson (2003), the growth of outsourcing methods has been attributed to the need for a variety of high-quality services by firms to succeed in a rapidly changing external environment. However, organizations often lack the information essential to select their outsourcing providers and manage their outsourcing relationships effectively (Golenaris et al., 2003; Parker & Russell, 2004), making it challenging to establish successful outsourcing partnerships. A definition of quality is something that can be put to use. It is considered that a contract for outsourcing is of good quality when it serves its intended purpose and satisfies the objectives of both parties.

The provision of good service quality, according to Lin and Lee (2005), not only increases organizational profitability but can also result in excellent performance for the organization. This is where an organization gains a competitive advantage.

### **2.5.3. Professional Service Outsourcing (PSO)**

Professional services outsourcing (PSO) is a crucial part of a comprehensive workforce strategy and stands out because it prioritizes the client-provider relationship and the output being produced over essentially every other link in the talent supply chain (Joe, 2017). In-demand services like "Information Technology, legal, and accounting" are routinely outsourced. This kind of outsourcing reduces costs and saves a lot of time (Outsourcing Insight, 2018). Due to the improved cost savings offered by this sort of outsourcing, it has become popular to outsource these kinds of tasks. A company's overhead costs are reduced as a result of having access to high-quality resources and only paying for the services that are really used (Daven, 2015). Legal process outsourcing, accounting outsourcing, and IT outsourcing are a few of the services offered under PSO. Legal process outsourcing (LPO) is the process of assigning legal-related work to a third party company that can effectively

manage them on a worldwide scale. Globalization, rising costs for legal services, the growth of the internet, automation, better security, and legal software are all factors that support legal outsourcing.

Outsourcing legal services offers law firms every possible solution to their problems (Cooper, 2010). Maslow (2015) claims that many organizations are turning to offshore legal analysis outsourcing owing to discovery and records management concerns as U.S. businesses continue to cut their organizational costs. Legal discovery expenses might be reduced by up to 80% by employing the best attorneys from emerging nations. The first objectives of reducing legal expenses are lowering the hourly rate of a lawyer and lowering the total number of hours a company needs to hire outside counsel (Gregory, 2015)..

#### **2.5.4. Service for Operational Outsourcing**

Due to the operational duties and processes that must be completed in order to correctly attain the desired outcome, this kind is primarily associated with the manufacturing business. Some of these jobs, such as machine maintenance and equipment repairs, are typically delegated to a third party with expertise in those fields. Outsourcing Insight, 2018; Daven, (2015). According to research by Kinetrix Consulting (2010), operational outsourcing gives a business scale and keeps fixed costs low, enabling organizations to expand and shrink in response to shifting market conditions. Experts from QED Financial Systems claim that outsourcing operations to the appropriate partner can help businesses achieve economies of scale in human capital and technology, allowing managers to concentrate on their core strengths and reducing resource consumption.

Landscaping, facility upkeep, cleaning, and property management are other categories of operational operations (Carol, 2018). Equipment outsourcing is becoming more and more common among businesses as a way to cut costs while maintaining output. In boom times, businesses decide to outsource equipment to boost output and efficiency; in lean times, they turn to outsourcing to save costs while still achieving production goals (Farthing, 2009).

Operators and producers in the oil and gas, utility, and power generation industries require not only the appropriate equipment but also effective and timely service (Valmec, 2018). According to Kutemann (2015), providing operation and maintenance services is a thorough, specialized activity that requires knowledge of the plant's operations as well as the

owner's goals. The amount of time that a facility is available for use, or its up-time, will rise with effective maintenance. Professional maintenance boosts operating income and extends the useful life of the assets, lowering client environmental hazards and capital expenditure. Before outsourcing maintenance, oil marketing businesses must take into account a number of things. Downtime is one of the components. Since the staff's abilities will affect how quickly breakdowns are fixed, this has a direct impact on productivity and customer earnings.

On the other side, a provider of maintenance services with the appropriate skill set might essentially reduce the repair time. Workforce is another problem; businesses outsource maintenance to cut expenses. Compared to hiring a company to complete the work as needed, using internal workers entails significant costs for pay, benefits, pensions, and hospital bills. Lack of control as a result of the service provider's whims being another factor. Since the business would be exposed to outside sources, risk management is another aspect to take into account. 2017 (Jonathan). Heat exchangers are used by oil marketing organizations in their laboratories, therefore finding service providers with the appropriate knowledge may be advantageous to the businesses.

## **2.6. Outsourcing and Organizational Performance.**

In general, outsourcing enhances organizational performance when used as an organizational strategy (Bacon, 2009). Assets are released and future expenditures are decreased by outsourcing. Businesses that outsource portions of their operations claim significant cost reductions on both operating and capital expenses. High performing businesses and best practices for outsourcing are related (Rimmer, 1991; Utley, 1993; Laurgers et al., 2005). Strategic outsourcing boosts efficiency (Bowser 1990), capacity, quality (Lau and Hurley 1997), productivity (Casale 1996), and organizational competitiveness (Lever 1997).

Compared to companies that only outsource their business functions, organizations that outsource are more vulnerable to risk. The former struggle to strike a balance between making the proper decisions, providing staff with competency training, and increasing productivity (Gupta & Zheuder, 2004). Outsourcing and profitability margin have a closer connection, claim Lau and Hurley (1997). Due to efficient outsourcing achieved through strategic alliances, they discovered that Chrysler's profit margin was four times higher than that of General Motors (GM).

By reducing their risks associated with significant infrastructure investments, businesses that outsource are able to draw in more investors (Jennings, 2006). The organization is essentially rearranged around the key skills and the external relationship while outsourcing. In recent years, efficiency, flexibility, speed, and innovation in developing business applications, as well as access to new technologies and talents, have replaced the tactical benefits of outsourcing that were traditionally prioritized, such as cost reduction (Bacon, 2009). From a commercial standpoint, outsourcing helps businesses to offer competitive pricing, hence increasing productivity. Professor Nitin Joglekar of Boston University published a finding that suggests greater efficiency: less than 20% of employees affected by decisions to outsource frequently lose their jobs, while the remainder is redeployed inside the company. The end consequence is that clients are satisfied with the services provided by organizations that outsource because they view prompt delivery as a positive business trait, enabling them to do business with them again.

### **2.6.1. Cost-Driven Outsourcing and Organizational Performance**

In the last few decades, companies have increasingly outsourced their non-core business operations to outside service providers. Information technology management, support services, manufacturing, logistics, and customer assistance are among the areas that have experienced significant outsourcing. To maintain a competitive edge while cutting costs and concentrating on core capabilities, outsourcing has been done most frequently (Zhao, Xue, & Zhang, 2014) It is widely believed that this tendency will continue in the near future. Outsourcing has currently evolved into a strategic tool in the global economy. International markets with less labor and operating costs, as discovered by Kenyon and Meixell in 2001, are better suited for outsourcing. But as Insinga and Werle (2000) point out, operational-level outsourcing can quickly result in the formation of dependencies that produce unanticipated strategic weaknesses.

There is no question that outsourcing can be strategically useful. The most crucial factor, however, is the realization of the strategic value that, if handled properly, outsourcing can bring to any firm. The actual risk of outsourcing, according to Insinga and Werle (2000), is that it will be lost in the daily commotion of the business. The major success criterion of outsourcing becomes lower cost, period, they note, at this level. (p. 58). They contend further that businesses need to institutionalize a strong decision-making process to regulate the

outsourcing partnership in a way that tightly connects the operational to the strategic in order to avoid losing sight of the strategic objective.

### **2.6.2. Organizational Performance and Quality-Driven Outsourcing**

**Quality:** The term "quality" refers to the entirety or properties of products and materials that best meet the intended purpose at the lowest possible cost. It is excellent, meritorious, and suitable. (1996; Doubler). For almost any organization, offering top-notch service is a top priority. When customers choose which company to utilize to meet their needs, quality of service can be a key deciding factor. Customers have specific expectations regarding the amount of satisfaction they will receive from the businesses in which they participate, and it is challenging to increase your quality of service if you don't have any feedback from your customers regarding how to improve. As a result, obtaining customer feedback and using it to gauge service quality should be a key component of practically any company's strategy. Every organization has finite resources, and every manager has finite amounts of time and attention, claim D'Aveni and Ravenscraft (1994).

By focusing on tasks that assist the consumer rather than ancillary tasks, outsourcing might help your company's managers more clearly define their priorities. Muweesi (2011) asserts that effective outsourcing strategy implementation has been attributed with contributing to capacity growth, capacity enhancement, and quality improvement. Outsourcing was primarily done to reduce labor costs, but it also increases operational effectiveness. According to Kok and Richardson (2003), the necessity for a variety of high-quality services by businesses to thrive in a quickly changing external environment has contributed to the expansion of outsourcing practices. Although enterprises lack the knowledge to choose their outsourcing providers and manage their outsourcing relationships poorly, developing strong outsourcing partnerships is still difficult (Golenaris et al., 2003; Parker & Russell, 2004).

Fitness for a purpose is a definition of quality. When a contract for outsourcing performs as agreed upon and satisfies the goals of both parties, it is considered to be of high quality. Lin and Lee (2005) assert that an organization's competitive advantage lies in its ability to offer high-caliber services, as these services can both increase organizational profitability and improve performance.

### **2.6.3. Focus-Driven Outsourcing and Organizational Performance**

Recent organizational development and change initiatives have placed outsourcing strategy at its core. The process of structural and organizational change is typically preceded by dramatic adjustments that establish the foundation for business process reengineering. Current trends are moving toward the idea of virtual corporations built on connections, cooperation, and strategic economic alliances between various companies. Identifying and using the idea of core competencies in a way that allows for new benefits to be gained from specialization is often the first step in the development of such connections (Agndal & Nordin, 2009).

Additionally, according to Styles and Goddard (2014), the process must guarantee that the consumer obtains value additions that go beyond the levels that were previously provided. Numerous firms are focusing on strategic renewal and innovative solutions as a result of the unanticipated realities and complexity of competing in a global supply chain environment. The hazards of doing business in today's dynamic economy, including outsourcing services, are managed and mitigated by these solutions (Buchanan, 2014). Large organizations in the past, both public and commercial, were able to attain large cost and differentiation benefits through sophisticated organizational structures, systems, and procedures (Porter, 1980). Although a lot has changed, outsourcing is now increasingly being included into the strategies of many firms. The procedures that a firm considers both required and core will often be kept in-house, while the processes it considers necessary but not core will be outsourced (Shekar, 2008).

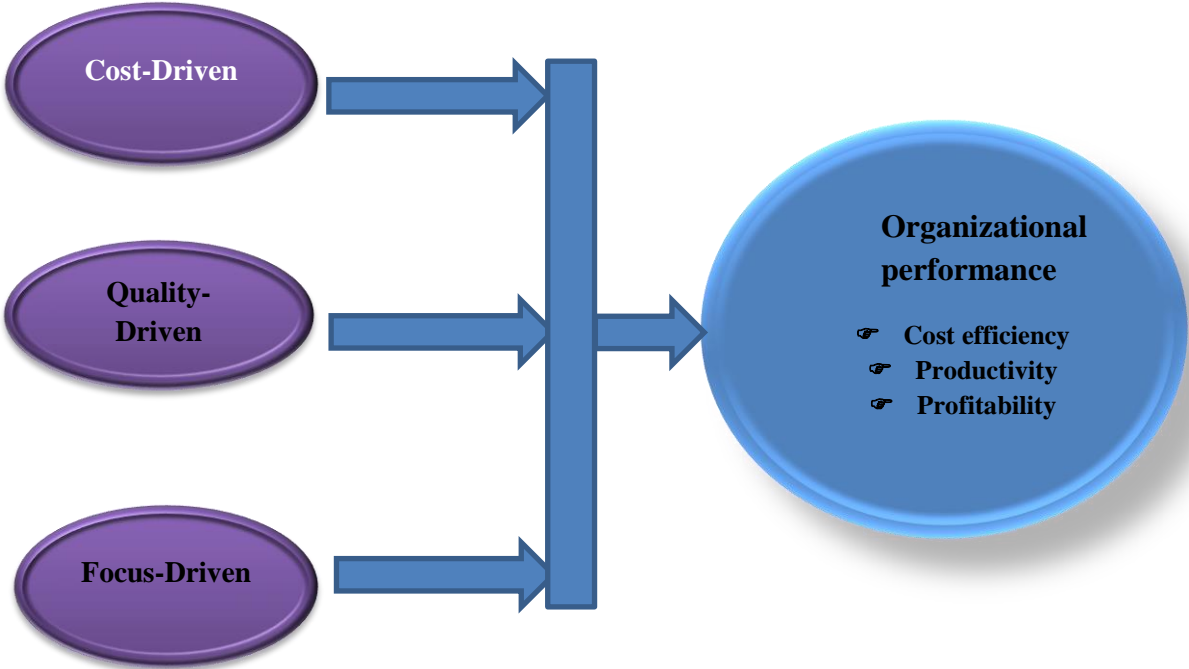
### **2.7. Concept-based structure of the study**

A conceptual framework, according to Thomas (2010), is a group of overarching ideas and organizing principles that are taken from relevant academic fields and used to structure a presentation afterward. Its goal is to help a researcher gain awareness and comprehension of the situation being studied so they can express it from a broad viewpoint. It draws attention to the key study variables and demonstrates how they relate to one another Thomas (2010). In this example, the inputs are shown as independent variables while the output is shown as a dependent variable. The outputs will be impacted by any modifications to the input caused by the outsourcing process. The three driving forces behind the study's independent variables are cost, quality, and focus.

**Figure 1: Conceptual framework**

**Independent variables**

**Dependent variables**



**Source: Adopted and modified from Masinga E, & Kiarie D. (2014)**

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This section explores the methodology and research design used in data collection and their justifications. It covers the research approach, research design, study area, population, sample size and selection methods, data collection tools and methods, data management, data processing, method of data analysis, level of significance, reliability analysis limitation of the study and ethical considerations presented.

#### **3.2. Description of the study area**

The thesis's research setting is the various Departments of Zemen Bank S.C. that are in charge of the bank's financial and administrative decisions, including outsourcing. The vice president of Corporate Resource Management oversees three Departments, i.e. Human Resources, Facility, and Finance. The fourth is the Legal Department Director, who reports directly to the Bank's President/CEO.

#### **3.3. Research Design**

A descriptive research design was used in the study. According to (Mugenda), 2000 is an effort to gather information from members of a population in order to ascertain the population's current status with respect to one or more variables. survey study is therefore a self-report study that requires collecting data from the sample by interviewing or administering questionnaires to sample individuals (Kothari, 2004; Orodho, 2003; Mugenda It involves gathering facts or obtaining pertinent and precise information concerning the current status of the phenomenon and, whenever possible, concluding the facts discovered.

Descriptive research was used to obtain valuable data that help evaluating the present phenomenon and provide a framework for decision-making and also explanatory research design was used to identify and explain the cause-and-effect relationship between variables. Survey design was appropriate for this study because it enables the researcher to collect as much information as possible and make conclusions from the findings.

### **3.4. Research Approach**

The researcher employed both quantitative and qualitative research methodologies to complete the study's objectives and address the research issues. Analyzing facts and information that are qualified and descriptive in character is a component of the quantitative approach (Sekaran, 2003). (through self-administrative questionnaire and document review interview)

### **3.5. Target Population**

The target population consisted of 480 Managers, Middle level administrative staff, Human resources Management, Management Information Systems, Facility Management and, officers. Of Zemen Bank S.C (Basic statistics, 2023)

### **3.6. Sample Size and Sampling Procedure**

The sample consisted of 143 respondents selected from the Zemen Bank S.C., Head Office 3 (three) members of the Directors (purposively sampled) was incorporated in to Interviews from Human resources, Facility and legal Department Directors because they are responsible for the financial and administrative decisions in the Bank including the outsourcing. To ensure proportional representation, staffs were grouped into 16 Departments. Then, using simple random sampling, 30% of each category was picking as shown in the Table 3.1 below. The decision to choose 30% and above of the population size will because, it was considered large enough to represent the entire population as advocated by Kothari (2004). 143 questionnaires were distributed to the respondents, and 141 of them were returned, yielding a 98.6% response rate. Saunders et al. (2007) deemed a response rate of at least 90% to be a good rate.

**Table 1: Stratified Random Sampling of Bank Staff**

S/N	Distribution of Staff at Zemen bank	Number	Sample 30%
1	Credit Department	25	8
2	Internal Audit Department	23	7
3	Knowledge and Innovation	7	2
4	Risk and Compliance Department	23	7
5	Finance Department	21	6
6	Human Resource Department	112	34
7	International Banking Department	23	7
8	Multi-Channel Banking Department	50	15
9	Legal Department	8	2
10	Engineering Department	9	3
11	Facility Department	98	29
12	E-Channel Department	13	4
13	Personal Banking Department	17	5
14	IT Project Department	9	3
15	Core Banking and Software Development Dep't	16	5
16	Corporate & Institutional Banking Department	23	7
<b>TOTAL</b>		<b>477</b>	<b>143</b>

Source (Zemen bank Basic statistics, 2023)

### 3.7. Research Instruments

According to Richard and Plight (1988), most techniques for measuring perception and attitude rely on verbal material in the form of interviews and questionnaires, thus the Questionnaire was the main instrument for data collection in this research study.

Questionnaires are appropriate because respondents have time to answer and give their view of the matter without coercion or influence from the researcher besides being easy and economical to manage in time and space.

The questionnaire was constructed to reflect the study's, personal experience, literature review, and was used to evaluate and examine items vital to the variables. Interviews were used to clarify and fill in any possible gaps in the completed questionnaires for primary data. Literature reviews, books, journals, and other pertinent papers were used to gather secondary data.

### ➤ **Questionnaires for Bank Staff**

The researcher administered closed and open-ended questionnaires to gather information from the 143 staff of Zemen Bank S, C.

### ➤ **Interview Guide for Directors.**

The researcher used structured interviews to get information from the 4 (Human resource, Facility, Finance and Legal Department) Head office Directors.

## **3.8. Data collection methods and Source**

The main primary tool that was used for collecting the data was through the use of a questionnaire. Five-point Likert scale was used for the questionnaire regarding the logistic inbound, logistic outbound and organizational performance. The Likert scale is coded with; 1= Strongly Disagree (SD), 2= Disagree (D), 3= Neutral/undecided (U), 4= Agree (A) and 5=strongly agreed (SA). The content validity was used to test the accuracy of the methodology used to ensure that the tests accurately calculate the principles that should be checked (Sekaran, 2006). In order to get sufficient data for the study, primary sources were used. Through questionnaires and interviews, primary data was gathered from the samples stated above. A questionnaire and interview was used to collect the intended amount of data. To provide responders the option to fully describe issues, the questionnaire includes open-ended questions. Semi-structured interviews were used in addition to the questionnaire.

## **3.9. Data analysis**

Statistical Package for Social Science (SPSS) software for version 20.0 was used to compute and analyze the data. Coding, data input, cleaning, and the use of statistical commands and measures like the mean, standard deviation, correlation, and regression coefficients were all necessary for the analysis of the quantitative data from the questionnaire. The determination of the correlation coefficient helped the researcher determine whether or not there was a relationship between each independent variable's dimension and the dependent variable, as well as its strength, while the determination of the regression coefficient helped determine the statistical contribution made by each independent variable's dimension to the dependent variable.

Tables were used to present the descriptively analyzed data because they provide a systematic record of the analysis. Additionally, multiple regression and correlation analyses were both utilized to examine the relationship between the independent and dependent variables.

### 3.10. Validity and Reliability Test

#### 3.10.1. Validity

Validity determines whether the findings are accurate from the standpoints of the researcher, the participants, or the readers of an account (John, 2009). Validity describes how well a given scale or index genuinely measures the idea that is being sought to be measured. Validity, according to Kothari (2004), seeks to prove that the outcomes are related to the circumstance. It is concerned with the degree to which the scale accurately depicts the relevant construct. Data was collected from reliable sources to ensure the study's validity. And the questionnaire was prepared using a five point-Likert scale multiple questions and structured interview.

#### 3.10.2. Reliability

Reliability refers to the extent to which the same research can be duplicated to receive the same results (Bryman and Bell, 2007). Therefore, it is essential to secure the study from unreliable factors, for this research a structured interview is performed before data gathering and opposed by peers to produce clear questions and avoid misunderstandings. Second, interviews was recorded and transcribed whenever possible to improve the quality of protocols for the analysis and ensure that none of the 30 participant accounts were omitted.

Third, the provisional analysis was provided to the participants to get confirmation of their accounts. Similarly, in the effort to increase reliability of the study, secondary data sources were carefully selected from Bank's official websites and the most reliable sources available. Finally, the internal consistency of each component of the instrument was evaluated using Cronbach's Alpha. It is a well-liked technique for evaluating the relative internal consistency of a set of things. Cronbach's alpha, is a dependability coefficient, in line with George and Mallery's 2003 findings, as mentioned in Joseph & Rosemary's 2003 study. It is widely used to assess the internal consistency or reliability of a psychometric exam for a sample of test-takers. Cronbach's alpha reliability coefficient typically falls between 0 and 1.

**Table 2: Reliability Test**

Reliability Statistics	
Cronbach's Alpha	N of Items
0.907	34

Source: Research data 2023

### **3.11. Ethical considerations**

The Zemen Bank S.C. data must be obtained with permission from the University Ethical Review Board, and Zemen Bank must also grant permission for the study to be conducted and for the participants to participate. Prior to the data gathering process, the researcher obtained approval from a number of organs, including the management of the organizations and each respondent. Every individual who took part in the study freely and with full consent. The participant was reassured by the researcher that all of their responses, regardless of nature, would be kept confidential, anonymous, and respected. They made it quite clear that, in order to finish the study as intended, they would offer an honest and truthful response. The researcher briefed each participant individually on the.

## **CHAPTER FOUR**

### **4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1. Introduction**

The presentation, analysis, and interpretation of data obtained through surveys and interviews are the topics covered in this part. The chapter includes general information about the respondents based on demographic data and findings based on how the study questions/objectives affect the performance of a corporation in Zemen Bank S.C. The questionnaires were created expressly to gather pertinent data on the aspects of outsourcing that have an impact on a company's performance when a manager of the operations department interview has been completed.

#### **4.2. Data Collection and Analysis Process**

The study's goals were to: examine the effects of focus-driven outsourcing on organizational performance in the instance of Zemen Bank S.C., as well as the effects of cost-driven and quality-driven outsourcing on performance. 143 questionnaires were distributed to the respondents, and 141 of them were returned, yielding a 98.6% response rate. Saunders et al. (2007) deemed a response rate of at least 90% to be a good rate.

The conceptual framework and the research questions served as the foundation for the data collection. Software programs from the SPSS version 25 were used for all statistical analyses. Commonly accepted descriptive statistics, which include indicators of central tendency like the mean and standard deviation, frequency distribution and correlation, were determined, as advocated by Stephens (2004) and Neuman (2003)

Data collection by questionnaire survey was employed to gather the information from the respondents. The data collection process associated with the survey used in this research began with contacting the management of Zemen Bank for permission to access staff and information deemed not for public utilization. The survey questionnaire was administered in March, 2023 to all targeted respondents. The questionnaire comprised of 34 questions subdivided into different categories as per the conceptual framework and designed on a Likert scale approach. The questionnaire was tested for reliability where Cronbach's alpha scores were computed using SPSS version 25. For all 34 of the coded items, it was

determined to be 0.907. For social sciences or non-clinical research reliability, an alpha score of 0.7 or above is acceptable (Groth-Marant, 2003). Results of the reliability test are shown in the table below.

**Table 3: Reliability Test**

<b>Cronbach's Alpha</b>	<b>N of Items</b>
<b>Overall Reliability Statistics</b>	
0.907	34
<b>Reason Reliability Statistics</b>	
0.785	5
<b>Quality Reliability Statistics</b>	
0.837	7
<b>Quality Reliability Statistics</b>	
0.890	5
<b>Focus Reliability Statistics</b>	
0.846	5
<b>Performance Reliability Statistics</b>	
0.836	6

Source: Research data 2023

**NB:** out of 34 the rest 6 number of item is 1.gender 2. Age, 3. Education background, 4.job category, 5. Position, 6. Experience

### **4.3. Background of the Respondent**

Table 4.1 shows the current gender distribution of respondents, showing that out of the total respondents, 102 (72.3%) are men and 39 (27.7%) are women. This shows that there are more male employees than female employees.

**Table 4: Gender, Age and Education background of sample respondents**

<b>Gender</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
1	Male	102	72.3	72.3	72.3
	Female	39	27.7	27.7	100
	Total	141	100	100	
<b>Age</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
2	21-30years	65	46.1	46.1	46.1
	31-40 years	49	34.8	34.8	80.9
	41-50 years	19	13.5	13.5	94.3
	above 50	8	5.7	5.7	100
	Total	141	100	100	
<b>Education background</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
3	Below grade 12	1	0.7	0.7	0.7
	Diploma	3	2.1	2.1	2.8
	Bachelor degree	101	71.6	71.6	74.5
	Master's Degree	36	25.5	25.5	100
	Total	141	1000	100	

*Source: Survey Questionnaire, 2023*

Table 4.1 present Age distribution of respondents, it can be simply understand that 65 (46.1%) of the respondents are between the age of 21-30 year whereas 49 (34.8 %) of the respondents are between the age of 31-40 and also 19(13.5%) of the respondents are between the age of 41-50 and it the same as (percentage of sample respondent) the age 50 and above. This table illustrates that majority of the respondents are young and at the age of productivity. It enables the organization to refer as the performance of work force as well as the productivity of the organization in proper manner.

The analysis and interpretation of this paper was based on primary data by using Stratified Random Sampling technique based on their experience. The questionnaire was distributed for 143 Officer, Senior Officer, Principal, Section Head, Division Manager, Director and others. The 4 Head office Directors (Human resource, Facility, Finance and Legal Department) was also selected to evaluate the effect of outsourcing on performance in Zemen Bank S.C. However, secondary data are also used as a base line for evaluation.

As it is shown in the above the respondent educational back ground is leveled in to four categories below grade 12, 0.7%, diploma 2.1% and degree holder 71.6% and Masters 25.5%. The majority of responders have degrees, and 36 of them have master's degrees.

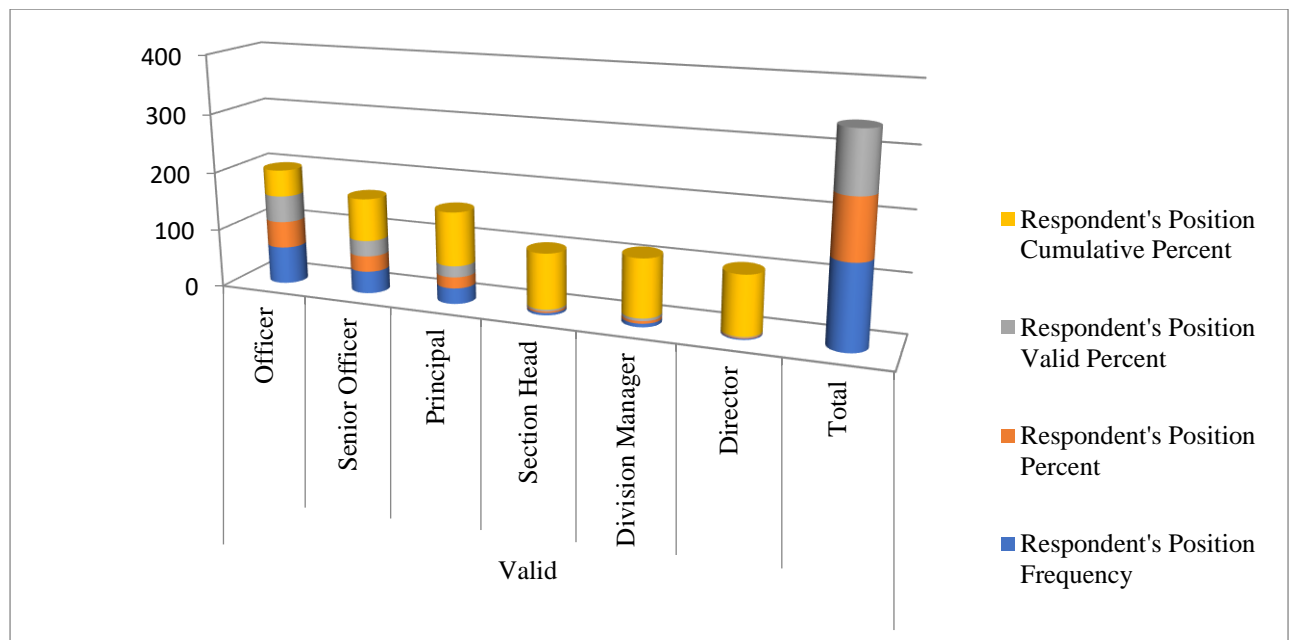
From the above table the researcher understand that in Zemen Bank S.C have educated employees. Therefore the office can serve its customer on time because of educated employees give their service to the customers when they need.

**Table 5: Respondents Position in the Office**

Respondent's Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Officer	64	45.4	45.4	45.4
	Senior Officer	38	27.0	27.0	72.3
	Principal	27	19.1	19.1	91.5
	Section Head	4	2.8	2.8	94.3
	Division Manager	6	4.3	4.3	98.6
	Director	2	1.4	1.4	100
	Total	141	100	100	

Source: Survey Questionnaire, 202

**Figure 2 : Respondents Position in the Office**



Source: Excel result, 2023

In the table above majority of respondent (45.4%) are from Officer and Senior Officer, only2 (1.4%) of the respondents are from Director in Zemen Bank S.C.

**Table 6: Service years of Sample respondents in the office**

Experience in Zemen Bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2 years	45	31.9	31.9	31.9
	2-5 years	53	37.6	37.6	69.5
	5-8 years	26	18.4	18.4	87.9
	Above 8 years	17	12.1	12.1	100.0
	Total	141	100.0	100.0	

Source: Survey Questionnaire, 2023

Table 4.4 the service years of the sample respondents is categorized in four categories that is 1-2 years, 2-5 years, 5-8 years, and above 8 years. Most of the respondents (37.6%) have 2-5 years and (31.9%) have 1-2 years given service in the Zemen Bank S.C. This implies, they are familiar with Jobs and they have been experienced, this has a great advantage for the control effectiveness of outsourcing performance.

**Table 7: Employee Response in main reason to outsource noncore (security, messenger and janitorial)**

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
To concentrate on banks core function	11	7.9	9	6.4	33	23.6	40	28.6	47	33.6	3.74	1.215
To reduce cost	7	5.0	19	13.6	37	26.4	48	34.3	29	20.7	3.52	1.115
To reduce workload	7	5.0	15	10.7	29	20.7	63	45.0	26	18.6	3.61	1.063
service quality and customer satisfaction	8	5.7	19	13.6	52	37.1	36	25.7	25	17.9	3.36	1.101
To improves flexibility	6	4.3	5	3.6	45	32.1	62	44.3	22	15.7	3.64	.938

Source: SPSS Result (2023)

The findings in Table 4.5 above are a summary of the factors that influenced outsourcing strategy. According to table 4.5, the respondents generally concurred that the company's decision to outsource non-essential functions was motivated by a desire to focus on the banks' key competencies (Mean=3.74). Additionally, according to the respondents, the business employs outsourcing as a tactical tool to lessen workloads (Mean: 3.61). Reducing costs was cited by respondents as the third justification for outsourcing the bank's non-core functions (Mean = 3.52). Therefore, the respondents ranked greater service quality, greater customer happiness, and greater flexibility as the top reasons for outsourcing strategy. With a mean of (3.64, 3.36), the bank's noncore function will be outsourced.

#### 4.4. Cost-driven Outsourcing noncore function

As we discussed in our presentation on the previous section, the bank outsources for a variety of reasons, but there are a variety of other reasons as well. We'll then look at how the respondents describe the degree of cost driven the bank has experienced.

**Table 8: Employee Response in cost-driven outsourcing function**

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
Outsourcing has reduced costs (overheads and fixed)	5	3.5	30	21.3	41	29.1	49	34.8	16	11.3	3.29	1.039
Lowest cost on security, messenger and janitorial jobs.	5	3.5	16	11.3	60	42.6	38	27.0	22	15.6	3.40	.999
Financial performance. through cost reduction	7	5.0	19	13.5	45	31.9	51	36.2	19	13.5	3.40	1.041
The cost of outsourcing is less expensive than buying more.	12	8.5	14	9.9	51	36.2	48	34.0	16	11.3	3.30	1.074
lower its operational costs for non-core company functions.	8	5.7	13	9.2	47	33.3	59	41.8	14	9.9	3.41	.986

Source: SPSS Result (2023)

According to the research above, 46.1% of those surveyed concurred or strongly concurred that outsourcing has decreased costs in the context of the above table. 29.1% of the respondents stated that the situation was neutral. While 21.3% of respondents disagree that outsourcing brings down costs (overheads and fixed), the opposite is also true. This indicates that, on average, the expenses of overhead and operations have decreased due to outsourcing. Outsourcing is not just about cutting costs, according to Brown and Wilson (2005). However, a business may prioritize cost savings for a number of reasons, such as having a weak financial condition or a strategy to boost profits.

In response to the second question, 46.1% of respondents responded that outsourcing allows Zemen Bank to find employees agree, firmly agree, at a lower cost. Moreover, 42.6% of respondents indicated neutrality. In contrast, 14.8% of respondents strongly disagreed and agreed that Zemen Bank may receive workers at a lesser cost by outsourcing. According to Caroline, a researcher from the year 2001 stated that Labour is one of the biggest costs that businesses have. Aside from salary, there are other expenses for things like bonuses, office space, support staff, computers and software licensing, internet access, hiring and keeping new employees, and refreshments. Employees receive increase overhead costs. Instead of increasing their headcount, organizations are outsourcing (Strauss, 2004). In addition to realizing cost savings, the company can attain a leaner balance sheet by selling off assets that would have otherwise been needed internally. This may be advantageous for the company's financial stability and return on assets ratio.

The majority of respondents, or 49.7%, agreed and strongly agreed with the third question's statement that outsourcing improves performance by lowering costs. 31.9% of all respondents thought neutrally, out of total respondents. Despite the fact that 13.5% of respondents disagree with the mean value of 3.40 and 1.041 SD, they do believe outsourcing helps enhance performance by cutting costs. Outsourcing is not solely about cost-cutting, according to Brown and Wilson (2005). To enhance profit, a corporation may, however, focus cost savings for a number of reasons, such as having an unstable financial situation.

In response to the 4th question, the majority of respondents (45.3%) stated that the cost of outsourcing is less than the cost of hiring more staff to complete the work internally. Additionally, 36.2% of respondents indicated neutrality. Contrarily, 18.4% of respondents claimed that the cost of outsourcing is less than the cost of hiring more staff to do the work

internally, with a mean value of 3.30 and 1.074 SD, respectively. According to Baily et al. (2005) and Lyson and Farrington (2006), the lack of internal resources, such as human and financial resources, may influence a company's decision to explore outsourcing.

In terms of whether the bank has been able to lower operational costs associated with non-core business functions, Outsourcing has done so, according to the majority of respondents (51.7%), who agreed and agreed strongly. 33.3% of all respondents stated that the situation was neutral. While 14.9% of respondents said they do not (agree) that outsourcing can help a company cut operational costs for non-core business functions. This indicates that, on average, outsourcing has decreased overhead and operating costs, as seen by the mean value of 3.41 and 986 SD. Outsourcing is not just about cutting costs, according to Brown and Wilson (2005). However, a business may prioritize cost savings for a number of reasons, such as having a weak financial condition or a strategy to boost profits.

#### **4.5. Quality-driven Outsourcing noncore function**

As we indicated in the previous part, the bank outsources for a variety of reasons, but there are several other reasons that can arise. Next, we'll examine how respondents describe the degree of quality-driven pressure the bank has experienced.

**Table 9: Employee Reaction in Non-Core Functions of Quality-Driven Outsourcing**

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
Outsourcing mechanisms enabled for sharing service.	2	1.4	11	7.8	47	33.3	57	40.4	24	17.0	3.64	.905
After outsourcing, the Bank has upgraded the services it already provided.	2	1.4	17	12.1	56	39.7	51	36.2	14	9.9	3.41	.881
Services can be obtained more quickly and efficiently thanks to outsourcing.	-	-	18	12.8	38	27.0	67	47.5	18	12.8	3.60	.869
After outsourcing, the services received from the service providers have been quite excellent.	4	2.8	18	12.8	65	46.1	46	32.6	8	5.7	3.26	.857
Provider of Outsourcing Services should provide engaging marketing materials for the service	2	1.4	15	10.6	51	36.2	58	41.1	15	10.6	3.49	.875
The bank is successful in ensuring the caliber of services provided by contracted outgoings.	6	4.3	5	3.5	68	48.2	46	32.6	16	11.3	3.43	.897
The bank feel safe in the outsource Service	12	8.5	8	5.7	57	40.4	50	35.5	14	9.9	3.33	1.025

Source: SPSS Result (2023)

According to the analysis of the above table, 57.4% of respondents agreed that outsourcing gave Zemen Bank the ability to share services, while 9.2% disagreed and 33.3% were neutral. By opening additional branches in various regions of the nation, Zemen Bank management is able to enhance accessibility to banking services while concentrating on its key competencies.

The majority of respondents (46.1%), as shown in the above table, think that outsourcing has improved Zemen Bank's present services; the remaining respondents (39.7%), on the other hand, expressed no opinion. 13.5% of respondents disagreed and strongly disagreed with Zemen Bank's claim that outsourcing improved its already-existing services.

According to the above table, the majority of respondents, 60.3%, agreed that outsourcing on Zemen Bank would help them obtain services that were more promptly and efficiently delivered, while 12.8% of respondents disagreed, and the remaining 27% were neutral. According to Bragg (1998), The fact that the supplier handles all of these time-consuming administrative processes, such as recruiting, firing, and personnel-related paperwork, is one benefit of outsourcing for a business.

According to the data above, the majority of respondents (46.1%) indicated that they were neutral. After outsourcing the remaining responses, 38.3% of respondents indicated they agreed that Zemen Bank's services were got from the suppliers in a very excellent manner. strongly disagree and strongly disagree.

According to the above chart, 51.7% of respondents agreed that outsourced service providers should produce visually appealing materials for the service, while 36.2% were neutral. In contrast, 12% of respondents claimed that visually appealing materials provided by the outsourcing service provider for the service were severely disagreed with and disagreed with. As demonstrated by the table above, most of the respondents 48.2% believe that Zemen Bank is successful in ensuring the quality of services provided by activities that are outsourced, while 43.9% of respondents concur with this belief and the remaining 14.2% are opposed to it. Data indicates that the Zemen Bank was successful with the service quality of the services offered for which outsourcing was done, with the main reason being the assurance of service quality.

According to the analysis's findings, the majority of respondents—45.4%—agreed that Zemen Bank feels secure using the outsourced service, while 40.4% held a neutral opinion. 14.2% of respondents did not believe that Zemen Bank felt secure using the outsourcing service. Zemen Bank's service is successful because it makes them feel comfortable, and this is the main reason for outsourcing, according to the data.

#### 4.6. Focus-driven Outsourcing noncore function

According to our earlier explanation, the bank outsources for a variety of reasons, but there are a variety of other causes that can arise. Next, we'll examine how respondents describe the degree of focus-driven challenges the bank has faced.

**Table 10: Employee Reaction in Non-Core Function Outsourcing with Focus**

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
Desire to focus tightly to achieving the organizational core business	8	5.7	6	4.3	48	34.0	51	36.2	28	19.9	3.60	1.034
to emphasize strategy (maximizing an organization's capabilities and minimizing competitors' strengths)	8	5.7	17	12.1	44	31.2	52	36.9	20	14.2	3.42	1.057
To stay competitive, the business focuses on doing its primary duties.	6	4.3	4	2.8	40	28.4	56	39.7	35	24.8	3.78	.993
Outsourcing non-essential services is the greatest method to concentrate on core functions.	3	2.1	15	10.6	40	28.4	63	44.7	20	14.2	3.58	.935
The business may now focus on developing and enhancing its best competencies thanks to outsourcing.	3	2.1	8	5.7	29	20.6	75	53.2	26	18.4	3.80	.880

Source: Survey Questionnaire, 2023

According to the study above, 56.1% of respondents in the table above agreed that they wanted to concentrate more on their core businesses. Additionally, 34.0% of respondents indicated neutrality. On the other hand, 10% of respondents disagreed with the claim that businesses may perform better if

they can focus on a small number of tasks (Baily et al., 2005; Lyson and Farrington, 2006). This idea stems from the fundamental concepts of division of labor and specialization.

In response to the second question in the above table 4.8, 51.1% of respondents agreed that strategy should be the main focus, while 31.2% of respondents had a neutral opinion. 17.8% of the sample disagreed with concentrating on strategy. According to Choic (2008), outsourcing non-core tasks enables organizations to concentrate their efforts on tasks that are essential to achieving their goals and helps them focus on achieving their priorities by making better use of their financial, human, and managerial resources.

The majority of respondents (64.5%) to the third question in the aforementioned table agreed that doing so would help the company maintain its competitiveness. Additionally, 28.4% of respondents indicated neutrality. Contrarily, 7.1% of respondents disagreed, strongly disagreed, and disputed that firms should concentrate on their core skills and invest money in other areas in order to remain competitive (Bucki, 2013).

The majority of respondents to the fourth item in the above table, 58.9%, agreed that outsourcing non-essential services is the best method to focus on core functions, while 28.4% of respondents held a neutral opinion. 12.7% of respondents disagreed that outsourcing the non-essential job is the best strategy to focus on the core functions. According to Choic (2008), outsourcing non-core tasks enables organizations to concentrate their efforts on tasks that are essential to achieving their goals and helps them focus on achieving their priorities by making better use of their financial, human, and managerial resources.

According to the majority of respondents (71.6%), outsourcing has enabled our organization to concentrate its efforts on creating and enhancing its best-in-class competencies. Additionally, 20.6% of respondents indicated neutrality. On the other hand, 7.8% of those surveyed disagreed that outsourcing has enabled our company to concentrate its efforts on developing and enhancing its best-in-class competencies. Disagree and strongly disagree, respectively. Zemen Bank management is able to enhance accessibility of banking services by opening additional offices in various regions of the nation while also having more time to focus on their main business.

#### 4.7. Effects of outsourcing on the performance of the banks

As has been presented in the previous section, outsourcing has many outcomes for the bank, however many effects can also be experienced. This section has questions that try to determine how outsourcing noncore business functions affect organizational performance in terms of (cost reduction, service quality, focuses on core activities).

Next we will look how the respondents state the level of Effects of outsourcing on the performance of the bank has faced.

**Table 11: Employee Response in Effects of outsourcing on the performance of the banks**

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
Outsourcing has created better organizational performance	4	2.8	15	10.6	48	34.0	56	39.7	18	12.8	3.49	.946
The performance of the Bank is satisfactory without outsourcing	-	-	13	9.2	61	43.3	48	34.0	19	13.5	3.52	.842
Organizational Performance increased after outsourcing	6	4.3	13	9.2	56	39.7	50	35.5	14	9.9	3.38	.943
Outsourcing non-core activities enhance the company to high market share	6	4.3	12	8.5	69	48.9	34	24.1	20	14.2	3.35	.972
The profitability of non-core tasks has increased as a result of outsourcing.	3	2.1	4	2.8	63	44.7	59	41.8	12	8.5	3.52	.780
The company's growth has been stable and extremely gratifying in terms of return on investment and revenue after outsourcing non-core functions.	5	3.5	5	3.5	73	51.8	45	31.9	13	9.2	3.40	.844

Source: Survey Questionnaire, 2023

The majority of respondents (52.5%) in Table 4.9 agreed that outsourcing had improved short-term performance, whereas 34% of respondents held a neutral opinion. 13.4% of the population disagreed that outsourcing had improved performance in the short run.

According to the study shown above, 47.5% of respondents believed that the bank's performance was satisfactory. 43.3% of respondents also indicated neutrality. Contrarily, 9.2% of respondents disagreed, strongly objected, and agreed that the bank's performance was not sufficient. Success in outsourcing was defined by Grover et al. (1996) as the advantages that a company experiences as a result of implementing an outsourcing strategy.

According to the data above, the majority of respondents—45.4%—agreed that outsourcing non-core business functions improved organizational performance, while 39.7% of respondents had a neutral view. In order to boost organizational performance, organizations outsource to others who have cutting-edge talents that are not currently available in the organization, according to the majority of 13.5% of respondents who disputed that performance had improved after outsourcing noncore business functions (Smith & McKeen, 2004). As a result, they can enhance key business functions, which enhance the efficiency of the company.

Additionally, outsourcing non-essential business operations allows a company to concentrate on its key competencies, which enhances organizational performance. A noticeably high market share was agreed upon by about 48.9% of the respondents. And other respondents (24.8%) indicated neutrality. In contrast, 12.8% of respondents disagreed on both the significantly high market share and the disagree Metrics like manufacturing output, profitability, sales turnover, market share, and a range of other accounting ratios can be used to compare and evaluate an organization's performance. Performance is the extent to which an organization meets a set of preset objectives that are compatible with its mission.

According to the data above, the majority of respondents—50.3%—believed that outsourcing non-core tasks has enhanced profitability, while 44.7% of respondents held a neutral view. The 4.9% majority's disagreement with outsourcing non-core tasks has enhanced profitability. Utilizing measurements like output in terms of production, profitability, sales turnover, market share, and a number of other accounting ratios, it is possible to compare or assess an organization's success. Performance is the extent to which an organization meets a set of predetermined objectives that are compatible with its mission.

Almost half of the respondents, or 41.1%, felt that the company's growth has been consistent and after outsourcing non-core operations, the return on investment and sales have been extraordinarily good. On the other hand, 7% of respondents disagreed that the company's growth has been constant and highly satisfying from the perspective of ROI and sales after outsourcing non-core functions, strongly disagreeing and disagreeing, respectively.

The results of this study are in line with those of Smith and Mc Keen (2004), who found that organizations outsource to those that have cutting-edge talents that aren't already present in the company in order to boost organizational performance. As a result, they can enhance key business functions, which enhance the efficiency of the company. Additionally, when non-essential business operations are outsourced, a company may concentrate on its key competencies, which enhances organizational performance.

#### **4.8. Results of Correlation Analysis and Discussions**

Correlation is a way to index the degree to which two or more variables are associated with or related to each other. The chief objective is measuring the strength or degree of linear relationship between two variables.

Table 13 shows the correlation between the variables under examination. Correlation was employed to look at the relationship between the groups of study variables. Due to the fact that the independent variables were measuring the same dependent measure, it was anticipated that there would be some connection between the predictor factors, even if the association was not significant.

**Table 12: Variables and their correlation**

		Correlations			
		COST Outsourcing	QUALITY DRIVEN Outsourcing	FOCUS DRIVEN Outsourcing	ORGANIZATIONAL PERFORMANCE
COST OUTSOURCING	Pearson Correlation	1			
	Sig. (2- tailed)				
	N	141			
QUALITY DRIVEN OUTSOURCING	Pearson Correlation	.405**	1		
	Sig. (2- tailed)	.000			
	N	141	141		
FOCUS DRIVEN OUTSOURCING	Pearson Correlation	.532**	.610**	1	
	Sig. (2- tailed)	.000	.000		
	N	141	141	141	
ORGANIZATIONAL PERFORMANCE	Pearson Correlation	.471**	.737**	.511**	1
	Sig. (2- tailed)	.000	.000	.000	
	N	141	141	141	141
**. Correlation is significant at the 0.01 level (2-tailed).					

- From the above table, the Pearson correlation coefficient shows that there is positive relationship between organization performance and cost - driven outsourcing ( $r=0.471$ ,  $P=0.000$ ).
- The Pearson correlation coefficient shows that there is positive and significant relationship between organization performance and quality- driven outsourcing ( $r=0.737$ ,  $P=0.000$ ).
- The Pearson correlation coefficient shows that there is positive and significant relationship between organization performance and focus- driven outsourcing ( $r=0.511$ ,  $P=0.000$ ).

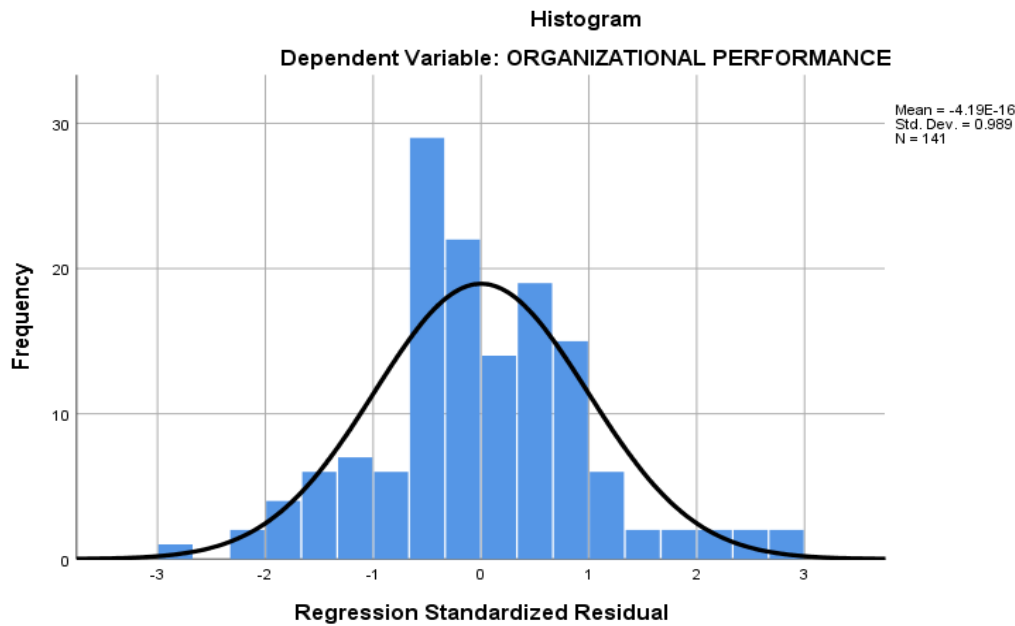
#### 4.9. Regression Analysis results

Cost-driven, goal-driven, and quality-driven outsourcing will all have an impact on the dependent variable, thus it will be important to look at their interactions, and this study used multiple linear regression analysis. (Organizational effectiveness)

### 4.9.1. Normality Test

The foundation of multiple regressions is the notion that variables follow normal distributions. Given that errors are indiscriminately distributed, a plot of the residual values will resemble a normal curve.

**Figure 3: Normality test Histogram**



Source: SPSS Result 2023

### 4.9.2. Linearity Test

The purpose of the linearity test is to determine whether or not the estimates of all types of regression, such as regression coefficients, standard errors, and tests of statistical significance, are accurate. The data roughly follow a straight line, which indicates a normal distribution of the data. Since residuals follow a straight line, as shown in figure 4.4, there is no issue with linearity in the data for this investigation.

Figure 4: Plot for linearity test result



Source: SPSS Result 2023

#### 4.9.3. Multi collinearity Test

Multi collinearity can arise in a regression model when there is a significant correlation between two or more factors. According to (Field 2009), multi collinearity may exist if at least one predictor is a perfect linear combination of the other. It is impossible to obtain unique estimates of the regression coefficient when the predictors are perfectly collinear since there are an endless number of possible coefficient combinations.

Table 13: Multi collinearity test table

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Cost Driven Outsourcing	0.707	1.415
	Quality Driven Outsourcing	0.619	1.615
	Focus Driven Outsourcing	0.531	1.883

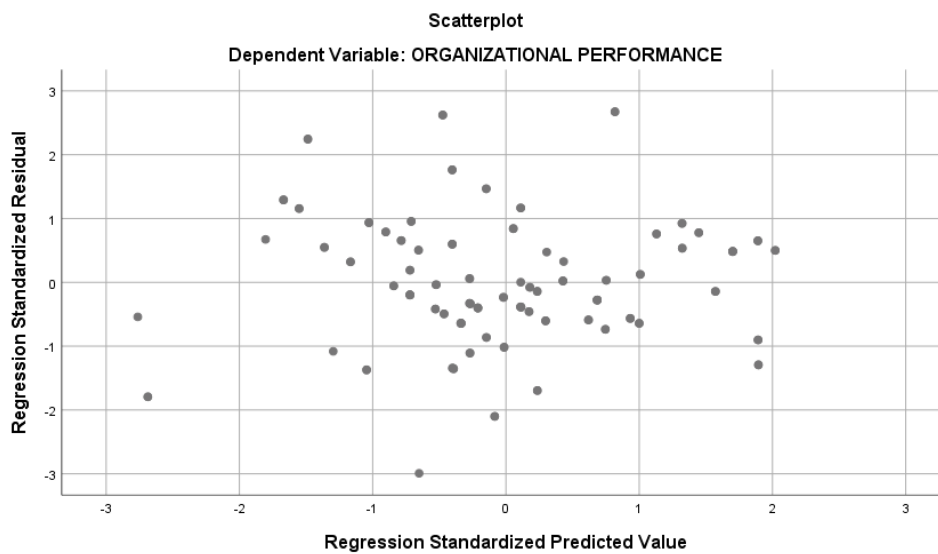
Source: SPSS Result 2023

Collinearity statistics obtained VIF values of 1.415, 1.615, and 1.883 based on the coefficient output on table 4.11 above. This range of numbers, from 1 to 10, reveals that the data are not multi collinear.

#### 4.9.4. Homoscedasticity Test

According to the homoscedasticity assumption, the error variance is the same at all levels of the independent variables. This indicates that errors are uniformly distributed across the variables.

**Figure 5: Error Variance Distribution**



Source: SPSS Result 2023

#### 4.9.5. Auto correlation Test

The Durbin-Watson statistic's size is determined by the number of predictors in the model and the amount of data. Values less than one or greater than three, as a very conservative rule of thumb, are obviously caused for concern (Field, 2009). The SPSS output in Table 4.13 on the other hand, confirmed that the Durbin-Watson value is 1.978, which is closer to 2. This shows that the residual terms are unrelated.

**Table 14: Auto correlation test table**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.761 <sup>a</sup>	0.579	0.57	0.43	1.978

Source: SPSS Result 2023

To assess the statistical significance of each independent variable (regression coefficients), the statistical significance of the dependent variable (ANOVA), and the statistical fit of the regression model to the data (model summary), a multiple regression analysis was performed after it was confirmed that the data satisfied all of the aforementioned criteria for multiple regression.

According to Table 4.13, there is a strong correlation b/n the independent and dependent parameter constructs, with a multiple correlation coefficient of .761 between the independent and outcome variables.

**Table 15: Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761 <sup>a</sup>	.579	.570	.430

a. Predictors: (Constant), Focus Driven Outsourcing, Cost Driven Outsourcing, Quality Driven Outsourcing

b. Dependent Variable: Organizational Performance

Source: SPSS Result 2023

The adjusted R square of multiple regression quantifies how much of the outcome variability is explained by the predictors (Field, 2009). The value in this case is .570 indicates that the predictor variables cost driven outsourcing, quality driven outsourcing, and focus driven outsourcing account for 57% of the variance in performance on Zemen Bank, whereas other factors not explored in this study account for 43% of the variance in performance on Zemen Bank

**Table 16: ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.823	3	11.608	62.916	.000 <sup>b</sup>
	Residual	25.276	137	.399		
	Total	60.098	140			

Source: SPSS Result 2023

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Focus Driven Outsourcing, Cost Outsourcing, Quality Driven Outsourcing

According to Field (2009), the ANOVA indicates whether the model overall significantly fits the data (check for values less than .05 in the Sig. column). Because the significant value p is smaller than .001, the SPSS output in Table 4.14 demonstrates that the model is considerably superior at predicting the outcome variable (performance of Zemen Bank).

**Table 17: Regression coefficients**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0.605	0.215		2.814	0.006	0.180	1.030
	Cost Driven Outsourcing	0.157	0.050	0.205	3.114	0.002	0.057	0.257
	Quality Driven Outsourcing	0.666	0.072	0.652	9.258	0.000	0.524	0.808
	Focus Driven Outsourcing	0.003	0.065	0.004	0.053	0.958	-0.125	0.132

a. Dependent Variable: ORGANIZATIONAL PERFORMANCE

The effects of dependent variables on independent variables are indicated in table 4.16. Organizational performance would grow by a factor of 0.650 over time. According to the result 0.157, cost-driven outsourcing boosts organizational performance by a factor of 0.157 for every unit that is increased. The outcome of 0.666 indicates that an increase in quality-driven outsourcing leads to a factor of 0.666 improvement in organizational performance for every unit increase. The end result of 0.003 demonstrates that a focus-driven outsourced unit growth causes a factor of 0.003 improvement in organizational performance. The results suggest that the three types of outsourcing—cost, quality, and focus—have an impact on logistical performance.

#### **4.10. Findings from interview and its discussions**

Four bank directors at the head office were interviewed to learn more about the actual outsourcing activity. Directors from the head offices of Zemen Bank's 4 departments (human resources, facilities, finances, and legal) were interviewed. To elicit more information from the respondent's input, semi-structured interview questions were developed. The following format is used to present connected questions and their answers for presentation purposes.

##### **What are the drivers/reasons that encourage your Bank to outsource its non-core? Business functions?**

Based on interviewee's response Banks outsource their non-core activities for several reasons, first **reasons Cost savings:** Outsourcing non-core activities can be more cost-effective than hiring and training employees to perform these tasks in-house. This can help the bank save money on salaries, benefits, and other overhead costs. The second reasons **focus on core business activities:** By outsourcing non-core activities, banks can focus on their core business activities, such as lending, investing, and managing customer relationships. This can help improve efficiency and productivity.

The third reasons Risk management: Outsourcing can help banks manage risks associated with non-core activities by transferring some of the responsibility to the outsourcing provider. This can include risks related to compliance, security, and data privacy. The fourth reasons to get developed new digital products and services with a faster time The fifth and the last reasons the banks do not have the know-how or specialized resources in atomization, outsourcing will help to minimize the gap. All the four department directors who were selected for the interview expressed the same reason on the reasons that encourage Bank to outsource non-core

##### **What advantages has the bank reaped from outsourcing these non-core tasks?**

According to interviewer hiring and staffing needs human, financial, material like building and other resources. Outsourcing will handle most of headaches by different menses. Thus, outsourcing will compensate the bank by providing any type of resources with shortest period, with minimum cost, with the required skilled labour and latest technology.

**What are the major challenges or problems facing in your Bank in relation to outsourcing?**

Based on interviewee's response While outsourcing non-core functions can provide significant benefits to banks, there are also some challenges and problems that they may face.

Some of these challenges include:

- The bank faces challenges to maintain the quality of service provided at home. These challenges are constantly created and due to outsourcing, which is mostly created through messenger, not including the security and janitorial.
- In our bank Outsourcing can increase the risk of security breaches, especially if sensitive data is being shared with the outsourcing provider.
- Also, when our bank wants to keep some activities confidential, there are times when customer information or information that requires high control is leaked. This is another challenge for us.
- Loss of control in banking, as outsourcing may result in loss of control over certain functions, making it increasingly difficult to manage risks or respond to changes in market or customer demand.
- Because of Cultural differences: In our bank Foreign service providers may have different cultural norms or business practices than banks, which may lead to misunderstandings or conflicts.
- Poor uniforms not up to the standards of banks, non-military security assigned to our banks are all the challenges or problems faced by Zemeen Bank.

Overall, banks need to carefully consider these challenges and work with their outsourcing partners to mitigate risks and ensure that outsourcing is providing the expected benefits. This includes developing clear communication channels, setting up effective monitoring and reporting systems, and confirming that the outsourced partner shares the values and objectives of the bank.

**What type of measures did your organization take to solve problems that faced? Or after outsourcing? (If any)**

According to interviewee's response to solve the problems that arise after outsourcing, bank typically takes those several measures,

**Establishing clear communication channels:** Bank need to establish clear communication channels with their outsourcing partners to ensure that there is regular dialogue about any issues or concerns. This includes setting up regular meetings and reporting systems to track progress and identify any areas of concern.

**Conducting regular audits:** Bank need to conduct regular audits of their outsourcing partners to ensure that they are complying with all applicable regulations and laws. This includes reviewing security measures, data protection protocols, and other key compliance issues.

**Investing in training:** Bank need to invest in training and development programs to ensure that their outsourcing partners have the skills and expertise needed to provide high-quality services. This includes providing training on compliance issues, customer service, and other key areas.

**Establishing clear performance metrics:** Bank need to establish clear performance metrics for their outsourcing partners to ensure that they are meeting expectations This includes setting up key performance indicators (KPIs) to track progress and identify areas for improvement. Securing enough stock for very necessary items or unstable cost challenge and Equipping with advance technology on time.

Overall, banks need to take a proactive approach to managing outsourcing relationships to ensure that they are providing high-quality services, complying with all applicable regulations, and mitigating risks. This requires regular communication, monitoring, and training to ensure that the outsourcing relationship is meeting expectations.

**How your Bank does monitors or controls the quality of the outsourced services and evaluates the performance of the service provider?**

A bank often follows these steps to monitor and regulate the quality of outsourced services and assess the service provider's performance:

First **Establishing service level agreements (SLAs):** Bank need to establish clear service level agreements with their outsourcing partners that outline expectations for quality, responsiveness, and other key performance partners to evaluate their performance against the established SLAs and KPIs. This includes providing feedback on areas for improvement and identifying ways to enhance the outsourcing relationship. And also signing Contract

agreement and Service Level agreement, assigning responsible person for supervision and maintaining checklist.

Overall, banks need to take a proactive approach to monitoring and controlling the quality of outsourced services and evaluating the performance of their outsourcing partners. This requires regular communication, monitoring, and reporting to ensure that the outsourcing relationship is meeting expectations and providing high-quality services.

**Do you think that the service quality and performance of the service provider result in Service Level Agreement? If not what is/are the reason/s?**

Only SLA is not solution and serious supervision against checklist is mandatory

**Is your bank preparing to contract out any further tasks in the future?**

Yes, but it will be based on research

## **CHAPTER FIVE**

### **5. Summary Conclusion and Recommendation**

#### **5.1. Introduction**

Chapter 5 is the final chapter of the study and provides the summary of the study, the discussion of the major findings of the study. The Chapter also provides the conclusion and the recommendations deemed viable at the backdrop of the findings of the study.

#### **5.2. Summary of the Study**

##### **Respondent Demographic Summary**

The main results of the respondent's demographic and general perception questions show that, of the respondent's entire sample, 72.3% were men and 27.7% were women. 46.1% of the population were between the ages of 21 and 30. 71.6% of respondents have a bachelor's degree. 37.6% of all respondents, or 45.4%, were bank officers who served for between two and five years.

##### **The main reason to outsource noncore function the Zemen Bank**

According to the study's findings, 62.2% of respondents agreed that focusing on banks' core competencies is a major reason why non-essential business operations are outsourced in the company, with a mean score of 3.74. Additionally, respondents ranked the above five primary reasons for outsourcing non-core business operations in a proportionate manner. Therefore, the reasons for outsourcing non-core business tasks by the bank range from the highest to the lowest, with a mean score of 3.52, 3.61, 3.36, and 3.64, respectively. These reasons are to reduce workload, lower costs, improve service quality and customer happiness, and increase flexibility.

##### **Employees attitude toward cost, quality and focus driven outsource noncore function in the Zemen Bank S.C**

According to the results of respondents' perceptions of outsourcing non-core business services on a cost-driven basis, 46.1% of respondents believed that outsourcing had decreased the costs (overhead and Fixed) of the bank's non-core business functions. In addition, 46.1% of respondents who were indifferent said that Zemen Bank S.C.'s experiences with the service provider's non-core business functions outsourcing have been very positive. In addition, 56.1% of respondents concurred that they wanted to concentrate more closely on their core businesses.

### **Effects of outsourcing on the performance of the bank**

According to the study's findings, 39.7% of respondents were neutral that outsourcing non-core business functions improved organizational performance. In addition, 7% of respondents disagreed that the returns on investment and sales have been stable and extremely good since outsourcing noncore activities. Additionally, 38.3% of the respondents believed that the market share was extremely high. The data gathered also revealed that there is still a way to find dedicated outsourced workers.

According to the regression analysis, only quality-driven outsourcing has a significant impact on performance ( $r=.321$ ,  $t=4.195$ ,  $p 0.05$ ). The Pearson correlation coefficient demonstrates a positive and significant relationship between organization performance and focus-driven outsourcing ( $r=.403$ ,  $P 0.01$ ). This backs up theory 2.

The first study question of the study was what is the effect of cost-driven outsourcing on the Company performance in Zemen Bank S.C The Pearson's correlation analysis revealed that, there is found to be a positive correlation and are significantly related with a correlation coefficient of 0.471, at  $P<0.01$ . The regression model result revealed that, a unit increase in cost-driven outsourcing by keeping other independent variables constant will lead to 0.157 increases in organizational performance at Zemen Bank Sh. Co. This implies that cost-driven outsourcing indicates for 15.7 % of variation in organizational performance. Therefore, the findings indicated that cost-driven outsourcing taking in the Organization affects positively organizational performance.

The second research question was how much quality-driven outsourcing affects Zemen Sh. Co.'s performance. Pearson's correlation analysis revealed a positive correlation and a significant relationship with a correlation coefficient of 0.737 at  $P0.01$ . The regression model resulted in 0.666 gains in organisational performance at Zemen Bank Sh. Co. for each unit increase in quality driven outsourcing while holding other independent variables constant. This means that quality-driven outsourcing accounts for 66.6% of the variation in organisational performance. As a result, the data suggested that quality-driven outsourcing has a positive and significant impact on organisational performance.

Focus-driven outsourcing in the organisational performance of Zemen Bank S.C. was the subject of the third research question. According to the results of the Pearson's correlation study, there is a positive connection and they are strongly associated, with a correlation coefficient of 0.511 at P. According to the regression model's findings, in Zemen Bank S.C. there is 0.003 rises in organisational performance for every unit increase in focus-driven outsourcing while maintaining the status quo for all other independent variables. Accordingly, green manufacturing is responsible for 0.3 of the difference in organisational performance. The results showed that the organization's focus-driven outsourcing has a minimal impact on organisational performance.

### **5.3. Conclusion**

**Based on the data presented and analyzed in the previous chapter of the study, the following conclusions are drawn by the researcher:**

- The descriptive analysis result shows that the majority of respondent agreed that, the overall effect of outsourcing on the performance of the bank was in a better position.
- The correlation result shows that there is positive relationship between organization performance and cost - driven outsourcing with ( $r= 0.471$ ,  $P=0.000$ ).
- The Pearson correlation coefficient shows that there is positive and significant relationship between organization performance and quality- driven outsourcing with ( $r= 0.737$ ,  $P = 0.000$ ).
- The Pearson correlation coefficient depicts that there is a positive and significant relationship between organization performance and focus- driven outsourcing with ( $r= 0.511$ ,  $P = 0.000$ ).
- The regression coefficient analysis result shows that, cost and quality driven outsourcing has a significant impact on company performance with a value of ( $p < 0.05$ ). However, focus driven outsourcing has a value of  $p >0.05$ , (i.e. 0.958) this shows that it is insignificant relationship with organizational performance.

## 5.4. Recommendation

**Based on the objectives and conclusions this study recommended as follows:**

- Zemen Bank can find external individual or company that can perform certain tasks or services at a lower cost compared to handling them internally.
- Zemen Bank can concentrate its internal resources and efforts on its core business function which are considered to be the key drivers of its competitive advantage.
- The researcher advice on quality-driven outsourcing that, Zemen Bank must prepare excellent technical requirement in order to select best outsourcing company that meet the banks standard.
- Overall focus driven outsourcing can be strategic decisions to optimize resource allocation, enhance operational performance and gain a competitive edge by leveraging external expertise in non-core areas.
- Zemen Bank should emphasize on achieving cost saving, improving efficiency and maximizing the return on investment. However, it's important to carefully consider the potential risk and challenges associated with cost driven outsourcing.
- The study's findings show that focus-driven approaches have minimal impact on how well organizations perform. A business should never hand over all tasks to a service provider.
- Zemen Bank must choose the best suppliers, assess prices against current market conditions, and keep an eye out for any potential hidden costs.
- The researcher advises Zemen Bank S.C to outsource with a clear understanding of why they wish to do so base on the study's findings. Research should be conducted on methods for gauging outsourcing performance, with a focus on Key Performance Indicators. As most outsourcing contracts are rife with disagreements and some of them end early, more research is required to examine and analyze the quality associated with outsourcing agreements.

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(                    ) Division Manager    (                    ) Director  
 Other \_\_\_\_\_

6. How long have you been in Zemen Bank S.C?

1-2 years             2-5 years             5-8 years             above 8 years

**Part II: General Questions in relation to Outsourcing**

**INSTRUCTION:** Assessment of outsourcing practices question. Please read the statement and put “(√)” mark in the corresponding column i.e. (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

7. What is the main reason to outsource noncore (security, messenger and janitorial) functions of the Zemen Bank S.C?

S.N	Reasons	(1)	(2)	(3)	(4)	(5)
7.1	To concentrate on banks core function					
7.2	To reduce cost					
7.3	To reduce workload					
7.4	To improve service quality and customer satisfaction					
7.5	To improves service flexibility					

### **Part III: General Questions about the study**

**INSTRUCTION:** List of items that are believed to measure variables of the study is given below. Please indicate your degree of agreement by putting a “√” mark on appropriate boxes whereby

1 = strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

#### **8. Please indicate the degree to which you agree with the following statements**

S.N	COST-DRIVEN OUTSOURCING	(1)	(2)	(3)	(4)	(5)
8.1	Outsourcing has reduced costs (overheads and fixed)					
8.2	Outsourcing enable to obtain labour at a lowest cost on security, messenger and janitorial jobs.					
8.3	Outsourcing contributes to improved financial performance. through cost reduction					
8.4	cost is lower than the cost of acquiring more resources to perform work internally					
8.5	Outsourcing able to reduce its operating costs related to noncore business function					

	QUALITY-DRIVEN OUTSOURCING					
8.6	Outsourcing mechanisms enabled for sharing service.					
8.7	The Bank has improved its already existing services after outsourcing					
8.8	Outsourcing enables to obtain services that are more efficiently and timely					
8.9	Services obtained from the service providers has been very satisfactory after outsourcing					
8.10	Outsource Service Provider visually appealing materials associated with the service					
8.11	The bank is successful in assuring service quality of outsourced activities					
8.12	The bank feel safe in the outsource Service					

<b>FOCUS-DRIVEN OUTSOURCING</b>						
8.13	Desire to focus tightly to achieving the organizational core business					
8.14	To focus on strategy(maximize an organization's strengths and to minimize the strengths of the competitors)					
8.15	The company concentration on its core function is to remain competitive					
8.16	The best way to concentrate on core function is to outsource the non-core functions					
8.17	Outsourcing has enabled the company to concentrate on its efforts on building and expanding its best competencies					

### 9. The effects of outsourcing on the performance of the Banks?

**INSTRUCTION:** Please indicate your degree of agreement by putting a “√” mark on appropriate boxes whereby 1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree. Based on five points rating scale stipulated below how do you evaluate outsourcing noncore business functions affect organizational performance? (i.e. effect on cost reduction, service quality, and focus on core activities, market share, sales and profitability).

<b>S.N</b>	<b>Effect of Outsourcing on the Performance of the Bank</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
9.1	Outsourcing has created better organizational performance					
9.2	The performance of the Bank is satisfactory without outsourcing					
9.3	Organizational Performance increased after outsourcing noncore business function					
9.4	Outsourcing non-core activities enhance the company to high market share					
9.5	Outsourcing non-core activities has led to increased profitability					
9.6	After outsourcing non-core activities, the growth of the company has been steady and very satisfactory in terms of return on investment and sales.					

## APENDIX -II

### **Interview questions prepared for Directors who have closely worked on outsourcing in Zemen Bank S.C.**

This interview will conduct to gather data for Masters of Logistics and supply chain Management Thesis entitled “EFFECT OF OUTSOURCING ON COMPANY’S PERFORMANCE: THE CASE OF ZEMEN BANK S.C”. I assure you that your responses will be used only for academic purposes with utmost confidentiality.

1. What are the drivers/reasons that encourage your organization to outsource its non-core business functions?
2. What benefits the bank has achieved by outsourcing these non-core functions?
3. What are the major challenges or problems facing Zemen Bank in relation to outsourcing?
4. What type of measures did your organization take to solve problems that faced? Or after outsourcing? (If any)
5. How your organization monitors or controls the quality of the outsourced services and evaluates the performance of the service provider?
6. Do you think that the service quality and performance of the service provider result in Service Level Agreement? If not what is/are the reason/s?
7. Is your organization planning to outsource any other activities in the future?
8. Would you like to add anything related to the topic that I didn't cover in my questions?

**APENDIX –III**

**Table4.11. Correlations Cost-Driven Outsourcing**

		<b>Correlations</b>				
		reduced costs (overheads and fixed)	Outsourcing enable to obtain labour at lowest cost	contributes to improved financial performance through cost reduction	cost is lower than the cost of acquiring more resources to perform work	able to reduce its operating costs
reduced costs (overheads and fixed))	Pearson Correlation	1	.549**	.467**	.511**	.538**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	141	141	141	141	141
Outsourcing enable to obtain labour at lowest cost	Pearson Correlation	.549**	1	.678**	.788**	.667**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	141	141	141	141	141
contributes to improved financial performance through cost reduction	Pearson Correlation	.467**	.678**	1	.705**	.570**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	141	141	141	141	141
cost is lower than the cost of acquiring more resources to perform work	Pearson Correlation	.511**	.788**	.705**	1	.706**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	141	141	141	141	141
able to reduce its operating costs	Pearson Correlation	.538**	.667**	.570**	.706**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	141	141	141	141	141

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table4.12. Correlations Quality-Driven Outsourcing**

Correlations								
		Outsourcing mechanisms	improved its already existing services after outsourcing	services that are more efficiently and timely	service providers have been satisfactory after outsourcing	visually appealing materials associated with the service	assuring service quality of	safe in the outsourced service
Outsourcing mechanisms	Pearson Correlation	1	.334**	.388**	.212*	.361**	.247**	.514**
	Sig. (2-tailed)		.000	.000	.012	.000	.003	.000
	N	141	140	141	141	141	141	141
improved its already existing services after outsourcing	Pearson Correlation	.334**	1	.629**	.627**	.333**	.533**	.440**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000
	N	140	140	140	140	140	140	140
services that are more efficiently and timely	Pearson Correlation	.388**	.629**	1	.473**	.389**	.405**	.467**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	141	140	141	141	141	141	141
service providers have been satisfactory after outsourcing	Pearson Correlation	.212*	.627**	.473**	1	.413**	.599**	.425**
	Sig. (2-tailed)	.012	.000	.000		.000	.000	.000
	N	141	140	141	141	141	141	141
visually appealing materials associated with the service	Pearson Correlation	.361**	.333**	.389**	.413**	1	.247**	.299**
	Sig. (2-tailed)	.000	.000	.000	.000		.003	.000
	N	141	140	141	141	141	141	141
assuring service quality of	Pearson Correlation	.247**	.533**	.405**	.599**	.247**	1	.560**
	Sig. (2-tailed)	.003	.000	.000	.000	.003		.000
	N	141	140	141	141	141	141	141
safe in the outsourced service	Pearson Correlation	.514**	.440**	.467**	.425**	.299**	.560**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	141	140	141	141	141	141	141
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

**Table4.13. Correlations Focus-Driven Outsourcing**

Correlations						
		Desire to focus tightly to achieving the organizational core business	To focus on strategy	The company concentration on its core functions is to remain competitive	functions is to outsource the non-core functions	Efforts on building and expanding its best competencies.
Desire to focus tightly to achieving the organizational core business	Pearson Correlation	1	.637**	.491**	.285**	.289**
	Sig. (2-tailed)		.000	.000	.001	.001
	N	141	141	141	141	141
To focus on strategy	Pearson Correlation	.637**	1	.667**	.475**	.436**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	141	141	141	141	141
concentration on its core functions is to remain competitive	Pearson Correlation	.491**	.667**	1	.531**	.603**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	141	141	141	141	141
The best way to concentrate on core functions is to outsource	Pearson Correlation	.285**	.475**	.531**	1	.688**
	Sig. (2-tailed)	.001	.000	.000		.000
	N	141	141	141	141	141
Efforts on building and expanding its best competencies..	Pearson Correlation	.289**	.436**	.603**	.688**	1
	Sig. (2-tailed)	.001	.000	.000	.000	
	N	141	141	141	141	141

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table4.16. Regression coefficients**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
<b>Cost-Driven</b>	Reduced costs (overheads and fixed)	.321	.076	.352	4.195	.000	.169	.472
	Enable to obtain labor at lowest cost	-.173	.106	-.183	1.642	.103	-.383	.036
	improved financial performance through cost reduction	-.106	.097	-.117	1.100	.273	-.298	.085
	Outsourcing cost is lower than the cost of acquiring more resources to perform	-.019	.103	-.022	-.187	.852	-.222	.184
	The bank has able to reduce its operating costs related to noncore	.017	.095	.018	.179	.858	-.170	.204
<b>Quality-Driven</b>	enabled for sharing services	.074	.090	.071	.828	.409	-.103	.251
	The bank has improved its already existing services after outsourcing	-.031	.102	-.029	-.304	.761	-.232	.170
	enables to obtain services that are more efficiently and timely	.252	.098	.231	2.576	.011	.058	.445
	Services obtained from the service providers have been satisfactory after	.049	.101	.044	.484	.629	-.151	.248
	service provider visually appealing materials associated with the service	.017	.087	.015	.191	.849	-.156	.189
	The bank is successful in assuring service quality of activities	.360	.096	.342	3.738	.000	.169	.551
	The bank feels safe in the outsourced s	.152	.086	.164	1.766	.080	-.018	.322
<b>Focus-Driven</b>	Desire to focus tightly to achieving the organizational core business	-.228	.086	-.248	2.662	.009	-.398	-.058
	To focus on strategy	.014	.097	.015	.140	.889	-.179	.206
	core functions is to remain competitive	.271	.089	.284	3.062	.003	.096	.447
	The best way to concentrate on core functions is to non-core functions	.086	.089	.085	.960	.339	-.091	.262
	Building and expanding its best competencies.	-.145	.102	-.135	1.427	.156	-.347	.056

a. Dependent Variable: Outsourcing has created better organizational performance

**Table 4.17 Tests of Normality Outsourcing on the Performance**

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Outsourcing has created better organizational performance	.225	139	.000	.891	139	.000
The performance of the bank is satisfactory without outsourcing	.259	139	.000	.864	139	.000
Organizational performance increased after outsourcing a noncore business functions	.206	139	.000	.885	139	.000
Outsourcing non-core activities enhance the company to high market share	.255	139	.000	.877	139	.000
Outsourcing non-core activities has led to increased profitability	.246	139	.000	.832	139	.000
After outsourcing non-core activities, the growth of the company has been steady and very satisfactory in terms of return on investment and sales	.274	139	.000	.833	139	.000

a. Lilliefors Significance Correction

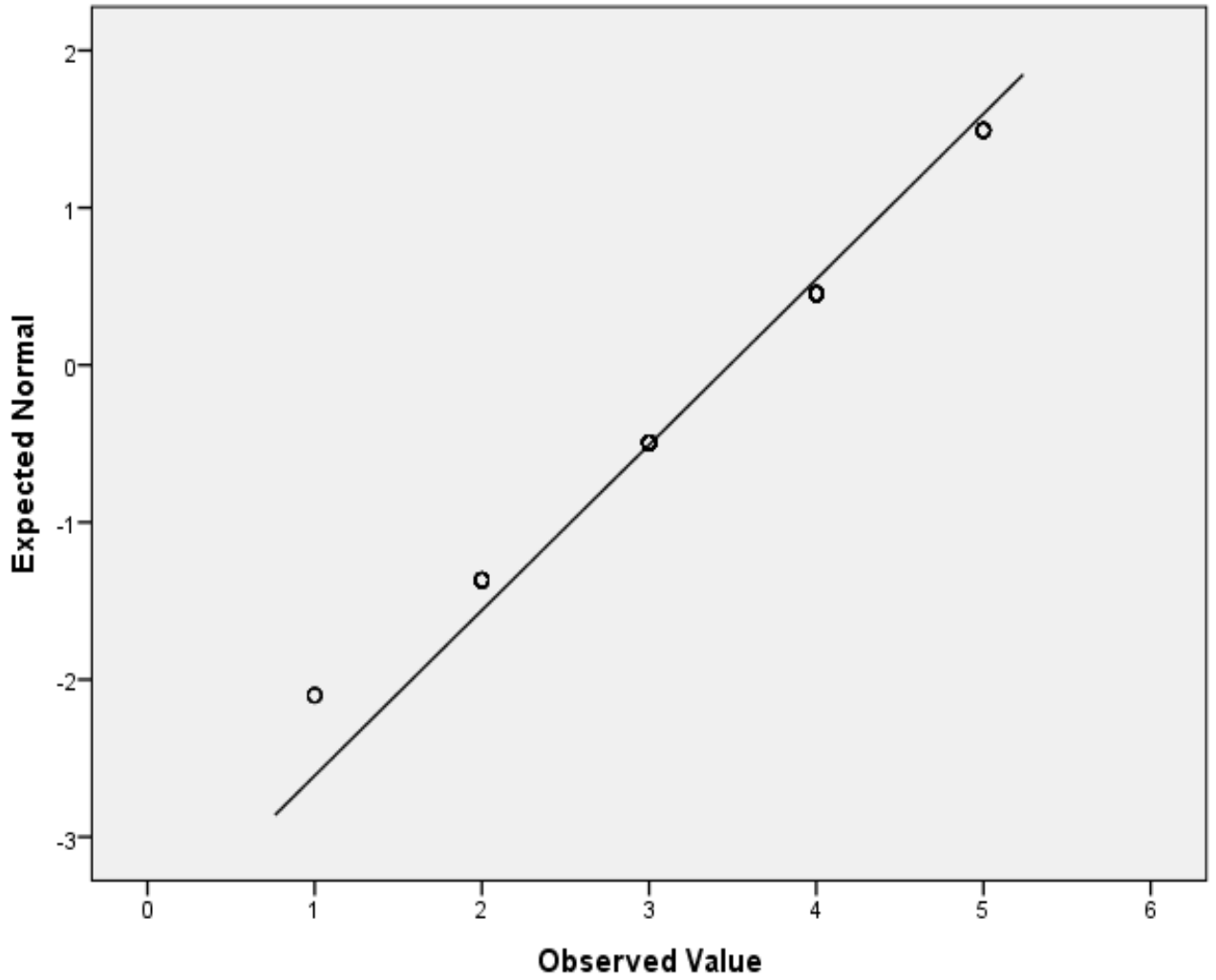
As the above Table 4.17 is shows the significant test of Kolmogorov and Shapiro is .000 this shows the distributed Outsourcing on the Performance data is normal.

### 5.1.1. Linearity Test

The linearity test aims to check whether all the estimates of regression including regression coefficients, standard errors, and tests of statistical significance are biased or not. The data lie approximately along the straight line indicating a normal distribution of the data. There is no linearity problem on the data for this study because residuals follow on the straight line as shown in figure 4.2

Figure 4.2: Linearity test using P-plot

**Normal Q-Q Plot of Outsourcing has created better organizational performance**



Source: SPSS Result (2023)