



Addis Ababa University

**The Effects of Human Resource Practices Outsourcing on
Human Resource Performance: On Selected Private
Commercial Banks in Ethiopia**

**A Research Report Submitted in Partial fulfillment of the requirements for
the Degree of Master of Arts in Human Resource Management**

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Addis Ababa**

DECLARATION

I, Almaw Addis declare that “**The Effect of Human Resource Practices Outsourcing on Human Resource Performance: On Selected Private commercial Banks in Ethiopia**” is my own work, that has not been submitted for any degree or any other examination in any other university, and that all the sources I have used are quoted, indicated and acknowledged as complete reference.

It is submitted for the degree of **Masters of Art in Human Resource Management** to Addis Ababa University School of Commerce Graduate Program.

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CERTIFICATION

This is to certify that **Almaw Addis** has completed his thesis entitled “**The Effect of Human Resource Practices Outsourcing on Human Resource Performance: The Case of Selected Private Commercial Banks in Ethiopia**”, under my guidance in partial fulfillment for the Degree of Master of Art in Human Resources Management. In my view, the work is an original effort of the candidate and all materials used for the thesis have been dully acknowledged.

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SCHOOL OF COMMERCE

GRADUATE PROGRAM

**“THE EFFECT OF HUMAN RESOURCE PRACTICES OUTSOURCING
ON HUMAN RESOURCE PERFORMANCE: ON SELECTED PRIVATE
COMMERCIAL BANKS IN ETHIOPIA**

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List of Acronyms:

AMO	Ability Motivation & Opportunity
ANOVA	Analysis of variance
ASP	Administrative Services Process
ATM	Automatic Teller Machine
BPO	Business Process Outsourcing
CBE	Commercial Bank of Ethiopia
E-services	Electronic Services
HCO	Health Care Outsourcing
HR	Human Resource
HRM	Human Resource Management
HRO	Human Resource Outsourcing
HRPER	Human Resource Performance
PEO	Professional Employer Organization
RSO	Recruitment and Selection Outsourcing
SLA	Service Level Agreement
SPSS	Statistical Package for Social Sciences
SSO	Security Service Outsourcing
TRO	Training Outsourcing

Abstract

This research was conducted to examine the effect of Human Resource Practices Outsourcing on Human Resource Performance in the case of Five Selected Private Commercial Banks in Ethiopia. Purposive sampling technique was applied to draw respondents. Data was gathered from 51 human resource professionals through questionnaire and from five human resource managers through interview. Both groups are working at Head Offices of the banks, all found in Addis Ababa. Explanatory research design and quantitative approach are applied in this research. Data were analyzed using statistical frequency table to determine the Human Resource Practices Outsourced. Pearson correlation Coefficient (r) was used to determine the relationship between each independent variable with the dependent variable Human Resource Performance. The finding indicates that there is significant and positive relationship between Human Resource Practices Outsourcing and Human Resource Performance. The result also indicates that an increase in Outsourcing Human Resource Practices will bring positive change on Human Resource Performance. The research has established that Private Commercial Banks which adapted Human Resource outsourcing have achieved an improved HR performance related to flexibility in running Training programs, cost reduction from Security Service and efficiency improvement from health Care Service. Therefore, to exploit advantages of Human Resource Outsourcing identified in this research and further improve Human Resource Performance in the Private Commercial Banks, the researcher then suggests expansion in Outsourcing Human Resource Practices. The interview result show that cost reduction related to Security Services Outsourcing is more than 41% which is so significant. These banks are also advise to give due care to investigate more on the reason of this large difference and expand to other practices. On the other hand its fairness must also be checked to ensure that the gain remains sustainable.

Keywords: Selected Private Commercial Banks, Outsourcing, Human Resource Outsourcing, Human Resource Performance

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Outsourcing is thought to benefit a business by allowing an organization to focus on its core competencies or core processes. In this way, an organization can divert its energy away from peripheral or non-core activities of the business which lies outside of its “true” area of expertise, and instead of that concentrating more energy and focus on what it can do well in order to differentiate itself from other competitors. By outsourcing their noncore activities, organizations would be able to reduce their operating costs too (Amitabh, 2007).

Outsourcing is a company’s decision to use external companies to provide products or services that it used to provide for itself .It is an effective strategy as it leads to cost cutting to achieve strategic focus thereby enhancing competitive advantage (Geetika, 2014).Outsourcing has been defined as work done for a company by people other than the company’s full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons (Seth and Sethi, 2011).

Cost cutting may not be the only reason to outsource, but it’s certainly a major factor. The services entrusted to specialized vendors helps in achieving economies of scale thereby reducing costs(Geetika, 2014). By outsourcing their noncore activities, organizations would be able to reduce their operating costs too. This is possible by reaping the benefits of a supplier’s lower cost structure, which could result from economies of scale or other advantages associated with specialization available with the outsourcing service provider (Amitabh, 2007).

Rationale for outsourcing HR functions, as with outsourcing more generally, includes financial efficiencies, an increased focus on strategic issues, improved access to technology and specialized expertise, as well as recourse to measurable and improved levels of service (Devid and Geoffrey,2009).

Human- resource outsourcing is an innovative management strategy that focuses on all areas relating to human resources and their management. It can have both a negative and positive influence on a company. But despite existing gaps and assessing the benefits, the use of human-resource outsourcing is increasing. It is therefore important to manage this activity properly, especially among service companies, for which the human factor is highly relevant (Rima and Ugne 2015).

Companies usually refer cost reduction as the most crucial reason for HR outsourcing. As companies were discussing how to cut costs in the face of an economic downturn, many look at outsourcing for some of their HR processes (Seth and Sethi 2011).

In this review, so far, human resource outsourcing in general is understood as business strategy that focuses on cost effectiveness by contracting out the labor supply, for noncore aspects of a company business process, to a vender which has a competency rather than direct hiring. Outsourcing Human Resource Practices is also considered as a means to concentrate on core businesses. HR practice is mentioned as eligible for outsourcing as a means of cost reduction for short term economic reason as well as for strategic purposes.

According to Armstrong (2009), the benefits of outsourcing include, reduced cost, access to expertise not available within HR, increased flexibility and speed of response, and freeing-up HR to focus on more value-adding activities.

Outsourcing of HR activities has fallen off somewhat from a decade ago, but the use of outside contractors is in no danger of vanishing from the human resources landscape. Roughly two-thirds of all employers responding in 2015 (65 percent) outsourced at least one HR activity at the time of the survey, little changed from a year earlier (62 percent) but well short of the high water mark of 79 percent in 2005 (a report by Bloomberg BNA, 2015).

Likewise, private commercial banks in Ethiopia have been observed adopting HRO practice on some of their business processes. For example, one of the private banks that is included in this study, Bunna International bank S. c., in its annual report bulletin June, 2017, has disclosed that

its staff head count has reached 1167 permanent and 1290 outsourced non-clerical staffs. In this example, in absolute terms, the outsourced labor force is higher than direct employees of the bank and the outsourcing focus is on non-clericals.

During the preliminary survey discussion with HR Managers of the five selected private banks .in Ethiopia, the researcher has learned that; human resource recruitment and selection activities, training activities, health care and security services are partially or completely outsourced. As the Human Resource Managers of the selected banks, Human Resource Outsourcing is adopted majorly for cost cutting, to free-up HR professionals from none-core activities, to get specialized expertise, to fill vacancies promptly and to manage staff size to the level of demand. This is consistent with the benefits of HRO identified by Armstrong (2009).

These all show that Outsourcing Human Resource Practices has gaining significant consideration as cost effective and efficient HR practice and found applicable in any respect of organization type. This research is, therefore, conducted to assess and evaluate how significant is the effect of Human Resource Outsourcing on Human Resource Performance in the context of selected Ethiopian Private Commercial Banks.

Currently 16 private commercial banks are operating throughout Ethiopia. All of these banks are Ethiopian based and headquartered in the capital city of the country, Addis Ababa. They have been established from 1994 to 2013. Majority of these banks are established in five years period from 2006 to 2011. Because of this homogeneity and their experience in human resource outsourcing practice five private commercial banks are selected for this research. This banks information, pertinent to this study, is summarized in the following table. The five selected banks are considered as representative of the 16 banks for this study. The data in the table under have been taken from the banks' respective 2016/17 annual reports and websites.

Table-1.1: List of selected banks

No.	Name of the bank	Year of Establishment	Number of branches	Number of staffs	
				Direct hired	Outsourced
1	Lion International Bank S.C.	2006	150	1518	1700
2	Oromia International Bank S.C.	2008	223	3066	780
3	Bunna international Bank S.C.	2009	138	1167	1290
4	Abay Bank S.C.	2010	144	1249	1286
5	Addis International bank S.C.	2011	52	431	449

Source: developed by the researcher.

1.2. Statement of the Problem

Human resource outsourcing is becoming more and more popular among organizations. This activity is particularly relevant for service companies because of the vital human factor in such organizations (Rima Žitkienė, Ugnė Blusytė, 2015).

As the amount and degree of outsourcing of Human Resource functions continues to increase, the issues of value creating competitive advantage and the support of organizational strategy constantly come up for thought and discussion. There is no doubt that HR outsourcing in and among itself is a strategic choice that most companies have decided to adopt that brings with it a whole host of possibilities when thinking about the best way to perform certain human resources functions that traditionally were always done in house (Savino 2016).

The typical reasons for outsourcing include seeking specialist services and expertise, cost reduction, and enabling HR specialists to focus on strategic role. Outsourcing of the HR activities to another company will not only reduce the costs of the company, but will also increase the possibilities for investment in the core elements of the business. HRO decisions are frequently a response to an overwhelming demand for reduced costs for HR services. The costs that were intended for the elements that were considered noncore are lessened. They include very important ones, such as regular salary, to those essential to the HR, such as training and other needs for employees (Berber et al. 2016).

In the research conducted, on Outsourcing Practices of Commercial Bank of Ethiopia, Zewdu (2013) has concluded as follows. The Commercial Bank of Ethiopia engaged in the outsourcing arrangements to focus on its core business functions. Following its strategic directions, the Bank has already outsourced some of its non-core business functions. Outsourcing as strategic option assisted the Commercial Bank of Ethiopia in a various way. Among these it helped the Bank to focus on core business functions, avoid major investment in HR.

The facts above are assumed true for private commercial banks in Ethiopia. As a result of availability of untapped market for banking business, these banks have been operating profitably with high growth rate in the last two decades. However, in recent times observable facts indicate that competition is becoming intensified among the 16 private commercial banks within each other and with the Commercial Bank of Ethiopia. To cope up the competition and capture the untapped market in the country, branch expansion is taken as the major strategy. This strategy similarity leads them to high competition in mobilizing and utilizing resources.

In searching potential solution to stay competitive these banks have revisited their human resource function practices and human resource outsourcing is considered as one strategy to tackle the problem. HRO is adopted for cost cutting or other strategic objective, by outsourcing one or more human resource activity, such as training and security service,

In an endeavor to search previous literatures in this regard, the researcher could not come across one that is done on human resource outsourcing practices in the contexts of Ethiopian

organizations. To be more specific, in the cases of Ethiopian Private Commercial Banks, there is no one specific literature related to Human Resource Outsourcing that the researcher could reach and cite.

This shows that, almost the unavailability of literatures to serve as background knowledge to understand the causal relationship between Human Resource Practices Outsourcing and Human Resource Performance in the contexts of Ethiopian private commercial banks. This clearly shows that, the Effect of Human Resource Practices Outsourcing on Human Resource Performance remains unrevealed knowledge gap that needs investigation in the contexts of Ethiopian private Banks.

Therefore, this study basically aims to identify the Effect of Human Resource Practices Outsourcing on Human Resource Performance in the Ethiopian private commercial banks to fill the identified knowledge gap.

1.3. Research Question:

The following specific questions have been addressed in this research:

- What human resource practices are commonly outsourced in the Ethiopian Private Commercial Banks?
- What is the association between Human Resource Practices outsourced and Human Resource Performance in the Ethiopian Private Commercial Banks?
- How Human Resource Practices Outsourcing affects the Human Resource Performance in Ethiopian Private commercial Banks?

1.4. General Research Objective:

The general objective of this study is, to examine the Effect of Human Resource Practices Outsourcing on Human Resource Performance in selected Ethiopian Private Commercial Banks.

Detail Research Objectives:

- To identify what functions of the Human Resource do Ethiopian private commercial banks outsource.
- To investigate the relationship between Human Resource practices Outsourcing and Human Resource Performance.
- To identify the Effect of Human Resource Practices Outsourcing on Human Resource Performance.

1.5. Hypotheses

Gary (2005), we know how important human resources are to an organization; as HR professionals, we have the obligation to ensure that management also knows how important human resources are. To do that, we must use what we know, provide effective evaluation and avoid the fads and traditions that don't work well for us. HR that isn't business-driven will not survive – and that's not good for the organization, for its people, or for us as HR professionals.

As the citation of (Savaneviciene and Stankeviciute 20012), the choice of performance measures used in research studies varies widely. In terms of performance outcomes proximity to HRM practices Dyer and Reeves (1995) posited four levels of outcomes claiming that the impact of HRM practices on more distal outcomes is made through more proximal outcomes.

The researcher, therefore, has developed the following hypotheses to test the effect of HRO practices on HR performance in five selected private commercial banks in Ethiopia, with focus on HR staff burden reduction, flexibility, efficiency and cost.

Hypothesis 1: Outsourcing recruitment and selection activity is positively related to HR staffs' burden reduction.

Hypothesis 2: Outsourcing training activity is positively related to flexibility.

Hypothesis 3: Outsourcing health care activity is positively related to Efficiency.

Hypothesis 4: Outsourcing security service is positively related to HR cost reduction.

Hypothesis 5: There is a significant positive relationship between HR practices outsourcing and HR performance.

1.6. Significance of the Study:

The research provides empirical literatures on Human Resource Practices Outsourcing to reduce the largely dependency of Ethiopian private banks on in-house HRM efforts and support the growing involvement in HRO. This study made thorough investigation on Effects of Human Resource Practices Outsourcing on HR performance in the Ethiopian private Commercial Banks. Moreover, it attempted to point out important points which could help to improve the performance of HRM in these banks through HRO.

Hence, the Managements of Ethiopian Private Commercial banks, policy makers, consultants and human resource management practitioners could be benefited from the findings of this study in justifying their HRO efforts. Further, this study provides insight for scholars who would like to see the problem differently on their future research.

1.7. Scope of the Study

The study dealt with specifically on assessment and evaluation of the Effect Human Resource Practices Outsourcing on the Performance of Human Resource Function related to reduction of HR staffs' burden, flexibility, efficiency and cost; of human resource function in Ethiopian private commercial banks.

This study was based on data collected from selected five private commercial banks that have been involved in HRO practice. These banks are all headquartered in the capital city of Ethiopia, Addis Ababa. Only Human Resource management professionals of these five banks are included as respondents to avoid errors that might be caused due to lack of knowledge on HR outsourcing practice and HR Performance. It was thought to include all HR staffs of the five selected banks that were thought 72 in number. At the end of the survey 51 found effective respondents. The survey was conducted using questionnaire and five HR Managers were interviewed to get some additional information that would support the result obtained through questionnaire.

1.8. Definition of Terms

In order to create a common understanding between the researcher and various readers of the research paper, the operational and conceptual definition of some words and phrases are presented as following:

- **Outsourcing** can be seen as a process in which a company delegates some of its in-house operations to a third party through which the company acquires services from another while maintaining ownership and ultimate responsibility for the processes (Khaled Mahmud et al. 2012).
- **Human Resource Outsourcing** is the process of subcontracting human resources functions to a third-party supplier (Khaled Mahmud et al. 2012).
- **Human Resource performance** in this research context is a result that human resource functional unit of an organization achieves by implementing a given human resources practice (Researcher's definition).

1.9. Organization of the Study

This study is organized in five chapters. The first chapter introduces the study as a whole. Mainly it focuses on the background explanation, statement of the problem, research question, and objectives of the study, significance of the study, scope of the study, limitation of the study, definition of terms and organization of the study. In Chapter 2 literature review is presented. Chapter 3 presented the research methodology and described how data was collected, the measurement instruments to be used and the methods for data analysis. Chapter 4 dealt with the analysis of the data. Chapter 5 discussed the results and concluded the research with recommendations on courses of actions to be taken and for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

In this chapter academic & empirical literature review, human resource performance concepts and the relationship between HRO and HR performance are discussed and finally conceptual framework of the study has been presented.

Theoretical Concepts

2.2.1. Definition and Meanings of Outsourcing

The term and concept of ‘outsourcing’ became part of the business lexicon during the increased economic and corporate growth of the 1980s. Outsourcing is essentially the transfer by a firm of products or services to an outside vendor or supplier as opposed to sourcing the same work within the firm’s own facilities. It is a strategic decision by the firm in question, and often taken in the interests of achieving cost efficiencies (Devid and Geoffrey 2009).

Outsourcing can be defined as the situation where an external vendor or service provider provides, on a recurring basis, services that would normally be performed in-house by the organization. In other words it can said that, outsourcing is a process where in organizations concentrate on those aspects of their business processes, which gives them a competitive advantage (called as core business) and contract out or shell out the noncore aspects of their business processes (Amitabh 2007).

By outsourcing their noncore activities, organizations would be able to reduce their operating costs too. This is possible by reaping the benefits of a supplier’s lower cost structure, which could result from economies of scale or other advantages associated with specialization available with the outsourcing service provider (Amitabh 2007). Companies usually cite cost reduction as

the most crucial reason for HR outsourcing. As companies were discussing how to cut costs in the face of an economic downturn, many look at outsourcing for some of their HR processes (Seth and Sethi 2011).

As the above cited works, outsourcing in general is a business strategy that focuses on cost effectiveness by contracting out noncore aspects of a company business process to a vendor which has a competency. Also, outsourcing practice is adopted by organizations as a means to concentrate on their core business by delegating out the noncore business aspects for the sake of gaining competitive advantages over their competitors. HR practice is mentioned as eligible for outsourcing as a means of cost reduction for economic reason as well as for strategic purposes.

2.2.2. Understanding Human Resource Outsourcing

Human Resource Outsourcing (HRO) is the purchase of ongoing HR services from a third party having competence to manage the HR functions for the organizations (Geetika2014). HR services are among the key elements in the enlarging outsourcing game. Recognizing the fact that senior management needs to get out of mundane day-to-day processing work and focus instead on strategic planning, core competencies, customer satisfaction and decision making, a number of large companies, across globe have begun opting for outsourcing of their HR services (Seth and Sethi 2011).

According to Armstrong (2009), the HR function is well positioned to outsource some of its activities to agencies or firms that act as service providers in such fields as training, recruitment, executive search, occupational health and safety services, employee welfare and counseling activities, childcare, payroll administration and legal advisory services. HR functions that have been given responsibility for other miscellaneous activities such as catering, car fleet management, facilities management and security (because there is nowhere else to put them) may gladly outsource them to specialist firms.

In This paragraph, Armstrong has identified HR functions to be outsourced gladly to specialist firms. In the same source, Armstrong also explained the benefits of outsourcing as that include;

reduced cost, access to expertise not available within HR, increased flexibility and speed of response, and freeing-up HR to focus on more value-adding activities.

Human Resource Outsourcing is the process of subcontracting human resources functions to a third-party supplier. Outsourcing can be seen as a process in which a company delegates some of its in-house operations to a third party through which the company acquires services from another while maintaining ownership and ultimate responsibility for the processes (Khaled et al. 2012).

The very important point raised, in the above cited work, is that service acquiring company has the ownership and the ultimate responsibility for the process, only it uses the acquired service to run the company business without losing its control.

Companies can save huge amounts of money by Human Resource Outsourcing and be free of complications that are otherwise involved in maintaining an internal HR department. Companies can concentrate on their core competencies which will save them their valuable time and resources. Some industry experts believe that Human Resource Outsourcing is the future, making the next generation of in-house professionals simply integrators of the company's outsourced services (Khaled et. al. 2012).

Human- resource outsourcing is an innovative management strategy that focuses on all areas relating to human resources and their management. It can have both a negative and positive influence on a company. But despite existing gaps and assessing the benefits, the use of human-resource outsourcing is increasing. It is therefore important to manage this activity properly, especially among service companies, for which the human factor is highly relevant. (Rima and Ugne 2015).

Therefore understanding HR Outsourcing well is the order of the day for these days' human resource managers and professionals, so as to they could illustrate their functional performance and to show up their value adding contribution to the organizational success. To manage well HRO, it is also necessary to know its typology.

2.2.3. Types of Human Resource Outsourcing

According to Haines, in the article which was reviewed by Collings and et al.in (2009), HR outsourcing services can be divided into four categories: PEOs, BPOs, ASPs or e-services. These categories are not watertight. Also, it is worth bearing in mind that these terms are used somewhat loosely in the industry, so it is important for companies to be well informed when investigating and/or employing an outsourcing firm.

Here, the two major ones are considered for further explanation. Professional Employer Organization (PEO) recruits, hires, and employs on behalf of the client company. In this arrangement workers become in effect employees of two employers: the client retains supervision for production or delivery of service, and the PEO is responsible for human resources and personnel services.

The other HRO form, labor leasing has become an important labor-market practice in the U.S. Labor leasing allows business employers to outsource non-revenue generating employee administrative duties so they can focus on productive side of the business (Ying W. and Hong Y. 2007). However, in the practices of this arrangement the labor leasing company is the sole employer, client is responsible only to pay the agreed amounts per person to the leasing company in lieu of the service it has received. In the case of PEO both the vender and the client are dual employers of an employee, whereas in the labor leasing form, the vender is the sole employer.

2.2.4. Applicable Theories to Human Resource Outsourcing Strategy

As cited by (Savaneviciene and Stankeviciute 2012) from various sources, the remaining void or largely unexplained facet of HRM and performance linkage has been referred to “black box”. Understanding the relevance of exploring the pathways leading from HRM practices to organizational value, considerable number of theories and approaches are used in order to clarify what is in this “black box” – the resource based view, human capital, intellectual capital, the behavioural perspective, organizational climate and culture, symbolic view of firm, an attribution approach, social exchange theory. Moreover, particular approaches and theories determine not

only the nature of the linkage, but also the significance of organizational strategy, the need for micro-level research and even the reverse causality in linking HRM and performance.

However, acknowledging the following statements and to avoid further complications and sophistication, this research deals with empirical practices rather than testing the relationship between human resource practices outsourcing and Human Resource Performance based on established theories.

“Assuming that in the context of globalization human resources and their management are vital to achieve sustainable competitive advantage, many of HRM research efforts have been directed to understand HRM and performance link. Notwithstanding the statistically and managerially significant relationships between two constructs and growing number of research demonstrating that HRM can serve as a value-creating function, still there remains considerable space for improvement the understanding. Although contingency theory, resource-based view and the AMO framework are the three most commonly used theories for linking HRM and performance, however, due to the growing sophistication and complexity these approaches do not provide answers to huge amount of questions in relation to HRM theory, performance theory and theory on how the two are linked” (Savaneviciene and Stankeviciute 20012).

As a result, the researcher assumes that, in the case of HRO the complication may intensify. So, to support the statistical analysis result regarding cost reduction, comparison is made between the cost of labor leasing and direct hiring practices using empirical wage cost collected from the selected private commercial banks in Ethiopia. Their dual practice of labor leasing and direct hiring was examined, in the absence of dual practice, their willingness how much to pay for direct hire was collected by interviewing HR managers of the target banks.

2.3 Empirical Studies

2.3.1. Brief review on Global Human Resource Outsourcing Practice

Outsourcing of HR activities has fallen off somewhat from a decade ago, but the use of outside contractors is in no danger of vanishing from the human resources landscape. Roughly two-thirds of all employers responding in 2015 (65 percent) outsourced at least one HR activity at the time of the survey, little changed from a year earlier (62 percent) but well short of the high water mark of 79 percent in 2005 (a report by Bloomberg BNA, 2015).

In a study conducted in Kenyan commercial banks 79% of the commercial banks outsource cash management services. 51.4% of the respondents agree that the banks outsource the recruitment service. 51% of the respondents strongly disagree that account opening service is outsourced. The study reveals that 77.1% of the respondents strongly agree that outsourcing of security services is prevalent among commercial banks in Kenya. The research reveal that 52% of the respondents strongly agree that transportation services are outsourced. It is revealed from the research findings on training of employees that 74.3% of the respondents agree that commercial banks outsource the service. It was established that 77.1% of the respondents strongly agree that Automated Teller Machine management is outsourced (Machua, 2014).

2.3.2. Review of Human Resource Outsourcing Practice in Ethiopian Commercial banks

In the research, conducted on general outsourcing practices of Commercial Bank of Ethiopia, which is Government owned and in all measures the largest commercial bank in Ethiopia, , Zewdu (2013) has concluded as follows. “The Commercial Bank of Ethiopia engaged in the outsourcing arrangements to focus on its core business functions. Following its strategic directions, the Bank has already outsourced some of its non-core business functions. Outsourcing as strategic option assisted the Commercial Bank of Ethiopia in a various way. Among these it helped the Bank to focus on core business functions, avoid major investment in HR.”

This fact is assumed to be true for Private Commercial banks in Ethiopia. There are 16 private commercial banks currently operating in Ethiopian. As a result of availability of untapped market

for banking business, these banks have been operating profitably with high growth rate in the last two decades. However, in recent times observable facts indicate that competition is becoming intensified among the 16 private commercial banks within each other and with the Commercial Bank of Ethiopia. To cope up the competition and capture the untapped market in the country, branch expansion is taken as the major strategy. This strategy similarity leads them to high competition in the mobilization and utilization of resources.

In searching potential solution to stay competitive these banks have revisited their human resource function practices and human resource outsourcing is considered as one strategy to tackle the problem and adopted by this banks, by outsourcing one or more human resource activity, such as training and security service, for cost cutting or other strategic objective.

For example, one of the private banks that is included in this study, Bunna International bank S. c. in its annual report bulletin June, 2017 has disclosed that its staff head count has reached 1167 permanent and 1290 outsourced non-clerical staffs. In this example, in absolute terms, the outsourced labor force is higher than direct employees of the bank and the outsourcing focus is on non-clericals.

As this researcher learned from discussion with HR Managers of the five selected private banks in Ethiopia, during the preliminary survey exercise, human resource recruitment and selection activities, training activities, health care and security services are partially or completely outsourced. These HRO practice are adopted majorly for cost cutting, to free-up HR professionals from none-core activities, to get specialized expertise, to fill vacancies promptly and to manage staff size to the level of demand. This is consistent with the benefits of HRO identified by Armstrong (2009).

Despite the practices prevalence as shown above, in the endeavor to search a literature in this regard I could not come across one that is done on human resource outsourcing practices in the contexts of Ethiopian organizations, to be more specific in the cases of Ethiopian private commercial banks. This shows that, almost the unavailability of literatures to serve as background knowledge to understand the practice of human resource outsourcing and its effect

on HR performance in the contexts of Ethiopian private commercial banks. So, it became hard to the researcher to further illustrate Human Resource Outsourcing practices on literature base.

2.4 Human Resource Performance

Human Resource performance, in this research context, is a result or an outcome that human resource functional unit of an organization achieves by implementing a given human resources practice (Researchers' definition). Human Resource Outsourcing can help cutting costs, concentrating on core business and most importantly in ensuring employee satisfaction. Companies can save huge amounts of money by Human Resource Outsourcing and be free of complications that are otherwise involved in maintaining an internal HR department. Companies can concentrate on their core competencies which will save them their valuable time and resources. Some industry experts believe that Human Resource Outsourcing is the future, making the next generation of in-house professionals simply integrators of the company's outsourced services (Khaled et. al. 2012).

Increasingly the role of the HR function is seen to be business-oriented – adding value and helping to achieve sustained competitive advantage. As such it contributes to the formulation of business strategy by ensuring that people issues affecting developments and performance are properly considered. This may involve bringing attention to the people issues related to new business development, expansion and takeovers, especially those concerning the availability of talent and making good use of it. The function contributes to the achievement of the business strategy by ensuring that the talented people required are available, and that high levels of performance are engaged and maintained (Armstrong 2010).

2.5 Relationship between Human Resource Outsourcing and Human Resource Performance

The amount of outsourcing in areas such as production and information processing has increased tremendously in the last several years in an attempt to compete by using the most attractive opportunities inside and outside the organization (Lilly et al. 2005).

Outsourcing is attractive to upper management because it improves some of the metrics used to judge company performance. For instance, "shedding specific assets allows a company to increase return on assets (ROA) and return on investment (ROI). Another benefit of outsourcing includes reducing prices of goods provided, which in turn leads to higher price to earnings ratios. In summary, firms that outsource any function do so with the idea that the firm's performance will increase. Thus an increase in HR outsourcing will result in an increase in HR performance (Lilly et. al 2005).

In a research conducted in the context of Commercial bank of Ethiopia; (Zewdu 2013) concluded that outsourcing as strategic option assisted the Commercial Bank of Ethiopia in a various ways. Among these it helped the Bank to focus on core business functions, avoid major investment in HR, is playing a great role in the fast expansion strategy of the Bank and also improved the Bank's performance and reduced operating costs. This conclusion is in line with the theoretical conclusions of the scholars' works referred in the paragraphs above.

Therefore, it is logical to expect that, adopting HRO in Private Commercial Banks in Ethiopia have been done for the objective to improve their HR Performance. Also, the existing literature on HRO indicates the existence of positive relationship between Human Resource Practices Outsourcing and HR performances (HR staff burden reduction, flexibility, efficiency and cost of HR activities). Whereas, there should be justification that HR outsourcing has effect on Human Resource Performance that could be measured by HR staff burden reduction, flexibility, efficiency and cost reduction.

2.6 Conceptual Framework

Conceptual framework is an essential research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and communicate this (Kombo &

Tromp, 49, 2006). The problem under investigation is how outsourcing HR practices affects HR performance. The independent variable for the study was Outsourced HR Practice while the dependent variable was the HR performance.

The causal relationships between HRO and HR Performance are recognized e as direct outcome It is also assumed that internal and external factors has supportive situation to HRO. The following research model is, therefore, developed by the researcher to depict the direct causal relationships between HRO and HR Performance at nearest proximity. In this research other intervening or extraneous factors that may interfere with independent and dependent causal relationship are assumed insignificant and are not recognized.

Independent variables (HR practices Outsourced) —————> Dependent variable (HR Performance)

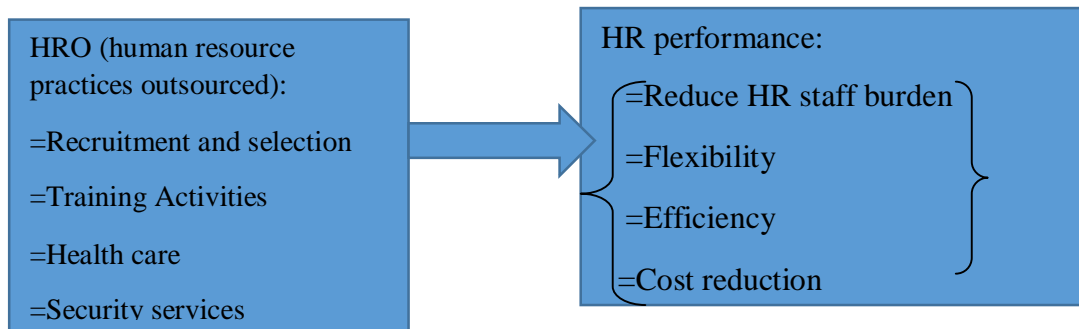


Figure- 2.1

Source: Developed by the researcher

Using this model as a framework, evaluation was made on the expected effects of human resource practices outsourcing on human resource performance to answer the research question of this research.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the research methodology and design that were used in conducting this research. The aim of this research was to investigate the causal relationship of HRO and HR performance. The data was analyzed and the information was used to answer the research questions. Research design aspects are presented under.

3.2 Research Approach

As Kothari (2004), there are two basic approaches to research, quantitative approach and the qualitative approach.

The major objective of this research is, to identify the effect of Human Resource Outsourcing on Human Resource Performance. Quantitative research approach is applied to make statistical analysis and show the relationship between variables. The SPSS statistical tool was used to make the analysis.

3.3 Research Design

3.3.1 Type of Study

The research is focusing on relationship between Human Resource Practices Outsourcing and Human Resource Performance. The research used explanatory study design. Explanatory study design gives attention for the study of relationship between variables.

For that, this research is undertaken to measure the effect of Human Resource Practices outsourcing on Human Resource performance, explanatory study is found appropriate and applied accordingly.

This study is a quantitative in nature by using survey method to examine the relationship between independent and dependent variables. The findings and conclusion of the study depend on the fully utilization of statistical data collected and analyzed using SPSS. The use of quantitative data for these purposes is important to determine the characteristics, strength and direction of the independent & dependent variables relationships. Findings are interpreted to infer the effect of the independent variables, Outsourced HR practices and the dependent variables, HR performance.

Even though questionnaire survey is considered as the major one, unstructured interview was conducted with HR managers to collect general organizational data relevant to this study. Also company documents were consulted for the same.

3.3.2 Population and Sample

Currently 16 private commercial banks are operating throughout Ethiopia. All of these banks are Ethiopian based and headquartered in the capital city of the country, Addis Ababa. They have been established from 1994 to 2013. Majority of these banks are established in five years period from 2006 to 2011.

Because of this homogeneity and their experience in human resource outsourcing practice, five private commercial banks are considered as representative of the 16 banks for this study.

Purposive sampling method has been used in which the banks were first contacted to enquire on their engagement with HR outsourcing. Year of establishment and their experience in human resource outsourcing practice was used to select the five banks to signify their homogeneity.

From the preliminary survey the number of Human resource professional in each bank is found as follows:

1. Oromia International Bank-----22
2. Lion International Bank-----17
3. Abay Bank-----14

4. Bunna International Bank-----	11
5. Addis International Bank-----	8
Total-----	72.

HR professional of the five selected private commercial banks were addressed through hand delivered questionnaire for the study. Questionnaires were prepared targeting 72 HR professionals. They are expected to provide data on HR outsourcing and are considered as the best persons to understand HR outsourcing practices in their respective banks.

HR professionals are chosen as best respondents for this study to avoid errors due to knowledge gape on human resource outsourcing practice.

3 .3.3 Sources of Data and Methods of Collection

Primary and secondary data sources were used in this study. The data collection was done based on the secured permission in the preliminary survey.

3.3.3.1 Primary Data

Primary data for this study is data about HR Outsourcing Practices of the selected Private Banks that were collected from the target population through questionnaire and interview.

3.3 .3.2 Secondary Data

Secondary data that includes company record, publication and web publications were used. The advantage of using this type of data is the fact that the data is accurate and ready to be used. Besides that, it is less time consuming and cheap to obtain the secondary data as it is already prepared by other experts.

1.4. Data Collection Procedure

This study uses both primary and secondary data. The data was collected using self-administered questionnaires, interview and through review of relevant company documentation. The survey method used to obtain primary data is chosen due to its appropriateness and practicality in terms of being a well-accepted diagnostic tool for organizational information.

Questionnaire was targeted to 72 HR professional from 5 selected private commercial banks in Ethiopia. These professionals are expected in the position to provide data on HR Outsourcing Practices and can be considered as the best persons to understand HR outsourcing practices in their respective banks.

Purposive sampling method was used, when organizations have been first contacted to enquire on their engagement with HR outsourcing. Thus, only banks that have an experience in Outsource HR functions were selected to participate in this study. The data collection was done after securing permission from respective officials of the banks.

3.5 Data Analysis Method

From the questionnaires, a few procedures can be done such as checking the data for accuracy. Besides that the questions were being to facilitate for analysis using Statistical Packages for the Social Science (SPSS) version 20.

This is followed by the examination and presentation of demographic profile of respondents using Descriptive Statistics for the sake of judging their ability to understand the questionnaire. According to Zikmund (2000), descriptive analysis refers to the transformation of the raw data into a form that will make them easy to understand and interpret.

Next, the Cronbach Alpha testing has been used, as (Sekaran, 2006) it is the most well accepted reliability test tool applied by social researcher. In Cronbach's Alpha reliability analysis, the closer Cronbach's Alpha to 1.0, the higher the internal consistency reliability.

Cronbach measures:

1. Reliability less than 0.6 considered poor.
2. Reliability in the range 0.7 is considered to be acceptable.
3. Reliability more than 0.8 are considered to be good

Also, in order to determine whether there are significant relationships among the independent variables and dependent variable, Pearson Correlation Coefficient analysis has been carried out. The scale model suggested by Davies (1971) used to describe the relationship between the independent variables and the dependent variable, are as shown below:

1. 0.7 and above – very strong relationship,
2. 0.50 to 0.69 – strong relationship,
3. 0.30 to 0.49 – moderate relationship,
4. 0.10 to 0.29 – low relationships and
5. 0.01 to 0.09 – very low relationship.

Finally, Multiple Regression Analysis is conducted to examine which among the three dimensions in independent variables is the most important in explaining the relationship between turnover intention and job satisfaction among employees.

3.6 Model Summary

In this study, multiple regression analysis was adopted to investigate the effect of human Resource practices Outsourcing on Human Resource Performance. Multiple regression is based on correlation, but allows a more sophisticated exploration of the interrelationship among a set of variables (Pallant, 2005). Thus, the relationship between Human Resource Performance (Y_i) and the independent variables is specified as follows.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where X_1 = Recruitment and Selection outsourced

X_2 = Training outsourced

X_3 = Security Service Outsourced

X_4 = Health care Outsourced

3.7 Ethical Consideration

There are a number of key ethical issues that protect the rights of research participants. These include protection from harm, informed consent, the right to privacy and honesty (Leedy and Ormarod, 2010). In this instance, the researcher informed the participants about the nature of the study and gave them the choice to participate or not. The researcher assured respondents that their responses shall be treated confidentially and asserted that the research findings will be reported without misrepresentation and pledged to acknowledge indebtedness.

3.8 Reliability and Validity Test

The researcher has made assessment on internal reliability of measurement instruments using the Cronbach's Alpha. The table under summarizes the reliability test result. In general, based on the Cronbach's Alpha results depicted in the table 3.1 below, it can be concluded that the variables are well correlated with each other and show good reliability and consistency.

Table 3.1: Cronbach's Alpha Results.

Variables	Item	Cronbach's Alpha Result
Staff burden	26-29	0.733
Flexibility	30-33	0.814
Efficiency	34-37	0.794
cost	38-41	0.880
HR practices outsourced	26-29	0.709

As far as the validity of the instrument concerned, it was developed by the researcher, after review of related instruments. The instrument has been discussed with people to verify the validity. Also it was reviewed during the proposal defense and has secured acceptance.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1. Introduction

This chapter contains the findings of the research through data collection and statistical analysis. As stated in the previous chapter, among 16 private commercial banks, five were considered as the sample. All human resource management professional of these banks, 72 in number were thought to fill the questionnaire.

However, during the data collection 8 staff members from one bank which were included in the sample have been revealed that they are non-human resource professional and excluded from the sample, as a result effective sample size become 64. Hence, questionnaires were distributed for this size only. From the five banks, 57 filled questionnaires were collected, 7 participants failed to respond. Also 6 questionnaires were returned incomplete and disregarded.

Accordingly, a total of 51 questionnaires or 80% effective responses have been received. The data were analyzed according to the respondents' background information and objectives of the research and had been summarized in tables.

4.2 Demographic Data Analysis

Regarding respondents' demographical data, only educational qualification and service years in human resource management were asked and responded. It is done to see how respondents are knowledgeable to fill the questionnaire..

Table-4.1 Respondent academic qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	3	5.9	5.9	5.9
Degree	36	70.6	70.6	76.5
Masters	12	23.5	23.5	100.0
Total	51	100.0	100.0	

Table-4.1 above depicts the respondents' academic qualification as 23.63% Masters, 70.59% Degree and 5.88% Diploma holders. This is a confirmation that most of the respondents are Human Resource professionals who have higher academic background to understand well human resource outsourcing practices.

Table-4.2 Respondent service year in Human Resource Management

	Frequency	Percent	Valid Percent	Cumulative Percent
less than 3 years	8	15.7	15.7	15.7
3-6 years	21	41.2	41.2	56.9
6-9 years	11	21.6	21.6	78.4
above 9 years	11	21.6	21.6	100.0
Total	51	100.0	100.0	

As Table-4.2 above 84% of respondents have 3 and above years work experience in human resource profession. This means that, they have considerable experience in human resource management that might help to understand the questionnaire and respond accordingly.

As a result, their ability to provide reliable information on HR outsourcing practices among private commercial banks is so acceptable.

Totally, findings in this two demographic factors show that respondents are eligible to fill the questionnaires, which in turn ensures the acceptability of the data reliability.

4.3. Extent of Outsourcing Human Resource Practices

Table-4.3 Extent of Outsourcing

HR Practice	Fully Outsourced		Partially Outsourced		Not Outsourced	
	Frequency	percent	Frequency	percent	Frequency	Percent
Recruitment and selection	4	7.8	29	56.9	18	35.3
Training activities	2	3.9	40	78.4	9	17.6
Security services	41	80.4	10	19.6	0	0
Cleaning services	47	92.2	3	5.9	1	2
Health care activities	42	82.4	1	2	8	15.6
Transport management	3	5.9	6	11.8	42	82.4
Postal mail	5	9.8	4	7.8	42	82.4
Account opening	2	3.9	5	9.8	44	86.3
Cash management	2	3.9	4	7.8	45	88.2
ATM Administration	2	3.9	2	3.9	47	92.2

Ten human resource practices or work processes were tabulated in the questionnaire for respondents' choice to determine whether a practice is fully outsourced, partially outsourced or not outsourced in their respective bank. The responses collected in this regard were analyzed and the result depicted in the above table is obtained.

The result has identified the five practices that are commonly outsourced. The result entails that Ethiopian private banks are using outsourced human resource largely in the areas of Recruitment

and Selection, Training, Cleaning, Security Service and Health care. On the other hand, these banks are using largely in house or direct hired human resource in the following Practices:

- Transport Management Service
- Postal Mail Service
- Account opening
- Cash Management
- ATM Administration.

In general, the result has indicated that largely the non-operational activities are covered by outsourced human resources.

Table-4.4 Descriptive Statistics of the Research Variables

	Recruitment & Selection	Training	Health Care	Security Service
N	51	51	51	51
Mean	3.3529	4.2157	4.1373	4.8431
Standard Deviation	1.9882	1.60392	1.66157	1.66156

The mean values, in table-4.4 above indicate level of Human resource staffs' understanding about the outsourcing experiences of selected banks, particularly on the four practices that are selected for further analyses as research variables.

The mean value of Recruitment and Selection Outsourcing was calculated as (mean=3.3529.). It is evident that the average respondents are not sure whether Recruitment and Selection is the most outsourced practice. Training outsourcing data (mean value of 4.2157) indicates that most respondents reported agreement on that training is the most outsourced practice. Mean value of 4.1373 for health care shows that most respondents agreed on that Health care is one among the commonly outsourced practices. Security Service outsourcing average response (mean=4.8134) indicates respondents agreement that security Service is the most commonly outsourced practice in the private commercial banks of Ethiopia.

In general, on average, HR Professionals (respondents) from the surveyed five private Commercial banks have agreed that the private commercial banks in Ethiopia are using outsourced human resource for Recruitment and Selection, Training, Security Service and Health Care Practices.

4.4. The Relationship between Human Resource Practices Outsourcing and Human Resource Performance

In this section of the study efforts were made to identify the relationship between Human Resources Performance and each variables of Human resource Outsourcing in the selected Private Commercial banks in Ethiopia.

As mentioned in chapter one of this study, one of the objectives of this study was to investigate the relationship between Human Resource practices Outsourcing and Human Resource Performance. To do so, Bivariate Pearson Correlation Coefficient has been used to see the relationship between Human Resource practices Outsourcing and Human Resource Performance. Accordingly, as depicted in the Table-4.5 under, a moderate and significant positive relationship was found between Human Resource Outsourcing and Human Resource Performance ($r = .453$).

Table-4.5 Correlation between Human Resource Practices Outsourcing and Human Resource Performance

	Human Resource Performance	Human Resource Practice Outsourcing
Human Resource Performance	1	.453**
Human Resource Practice Outsourcing	.453**	1

** Correlation is significant at the 0.01 level (2-tailed). Source: Researcher generated

Further, in this study efforts were made to show the relationship between Human Resource Performance and each variables of Human Resource Practices Outsourcing in the five selected Private Commercial Banks in Ethiopia. Table 4.6 below clearly depicts

all the hypothesized variables have positive relationship with Human Resource Outsourcing.

Table-4.6 Correlation Coefficients of all variables

	RSAO	TAO	SSO	HCSO	HRPER
RSAO	1				
TAO	.490**	1			
SSO	.241	.155	1		
HCSO	.433**	.582**	1		
HRPER	.302*	.365**	.343*	.378*	1

- Correlation is significant at the 0.01 level (2-tailed)**
- Correlation is significant at the 0.05 level (2-tailed).*

Source: Researcher generated table

As the table above, positive correlation was observed among Human Resource Performance and Recruitment and Selection ($r = .302$, $P < 0.05$), Training ($r = .365$, $p < 0.01$), Security Service ($r = .343$, $p < 0.05$) and Health Care ($r = 0.378$, $p < 0.01$). All the constructs under consideration are significantly correlated.

4.5. Effect of HRO on HR Performance

4.5.1. Model Goodness of Fit

Table-4.7 Model Goodness of Fit Test

Model	R	R Square	Adjusted R Square	Std. Err of the estimate
1	.484 ^a	.234	.167	8.34348

a. Predictor: (Constant), Recruitment and Selection, Training, Security Service and Health Care

b. Dependent Variable: Human Resource Performance (HRPER)

Source: Generated by the researcher

The goodness of fit measure indicates how well Human Resource Performance is explained by the variables considered in this study. Table 4.7 above shows ($R = .484$) result explains there is sound correlation between Human Resource Practices Outsourcing and Human Resource Performance. Further, ($R^2 = .234$) result depicts variables for Human Resource Outsourcing which are Recruitment & Selection, Training, Security service and Health Care suggests that 23.4% of Human Resource Performance level in the Private Commercial banks clearly explained by Human Resource Outsourcing.

4.5.2. Multicollinearity Test

Table- 4.8 Multicollinearity test

Model	Co linearity Statistics	
	Tolerance	VIF
Recruitment & Selection	.783	1.278
Training	.628	1.592
Security Service	.843	1.186
Health care	.542	1.846

Source: Generated by the Researcher

The problem of multicollinearity was checked. SPSS determines while running regressions under the table heading coefficient. According to Pallant (2005), multicollinearity can be checked by assessing the tolerance - and Variance Inflation Factor (VIF) which can be analyzed in SPSS. If the tolerance - value is less than 0.2 and if VIF values exceed 10, one can speak multicollinearity (Pallant, 2005). In this study, results are in the range of the acceptable level for the four constructs of the independent variables which are Recruitment & Selection, Training, security Service and Health care.

4.5.3 Normality Test

The normality test of the outliers has been done using Normal P- Plot of regression standardized residual and scatter plot diagrams respectively and found acceptable.

At this point it can be concluded that the result revealed the data collected from samples of this research is acceptable to continue running the regression in this aspect. See (annex III & IV) Normal P- Plot of regression standardized residual and normal scatter plot diagrams respectively.

4.5.4 Model Results on Effects of Human Resource Outsourcing on Human Resource Performance

Regression analysis was carried out with the main objective of investigating the effects of Human Resource Practices Outsourcing on Human resource Performance. This study employs multiple regression analysis method to investigate the effect of the independent variables (namely Recruitment & Selection, Training, security Service and Health care) on Human Resource Performance.

Table-4.9 Regression Coefficients Table

	Unstandardized coefficients		Standardized coefficients	Sig.
	B	Std. Error	Beta	
Model 1 (constant)	40.950	7.771		.000
Recruitment and Selection	0.391	.702	.055	.058
Training	1.219	.964	.214	.0213
Security Service	2.825	1.652	.242	.009
Health Care	.677	.950	.123	.047

a. Dependent variable: HR performance

Source: researcher generated

In this stage, it is possible to compare the relative contribution of each of the different variables by taking the beta value under the standardized coefficients. The reason why it is taken the value of beta under the standardized coefficients is that the values for each variable are converted to

the same scale so that it can be compared. The higher the beta value, the strongest its contribution becomes.

As can be seen from the regression coefficient table 4.8 above, for the effect of HR Outsourcing on HR Performance, all independent variables have resulted in positive effect on HR Performance. The Beta value for Recruitment & Selection is (Beta=0.055); the Beta value for training is (Beta=0.214,); the Beta value for security service is (Beta=0.242,); the Beta value for health care is (Beta=0.123,).

Thus, Security service Outsourcing is the dominant practice that influencing HR Performance related to implementation of Human Resource Practices Outsourcing in private commercial banks in Ethiopia. On the other hand recruitment and selection outsourcing is found weakly significant.

In this study Security Service effect is assessed using cost factors. From this result, therefore, it is possible to conclude that cost is the major driver for Outsourcing Human Resource practices.

Table 4.10 Interview result

Cost Comparison for Outsourcing Security Service								
Name of Bank	Security Officer pay per Person Per Month in ETB							
	In-House				Outsourced		Cost Reduction/Saving	
	Salary	Pension	Allowance	Total Pay	Salary	Total Pay	ETB	Percent
Oromia International Bank	3216.00	353.76	350.00	3919.76	2100.00	2100.00	1819.76	46.43
Lion Bank	3200.00	352.00	500.00	4052.00	2500.00	2500.00	1552.00	38.30
Bunna International Bank	3091.00	340.01	350.00	3781.01	2086.56	2086.56	1694.45	44.81
Addis Bank	2496.00	274.56	400.00	3170.56	2144.18	2086.56	1084.00	34.19
Four Banks Total				14923.33		8773.12	6150.21	
Average Cost Reduction							1537.55	41.21

To triangulate the questionnaire result regarding Security Service Outsourcing, the researcher has collected current pay data for a Security Officer, In In-house hiring and outsourcing arrangement through an interview conducted to five HR Mangers of the selected banks. The interview was conducted to HR Managers of the banks covered in this study. The result obtained is summarized in table 4.10 above. On average, outsourcing Security Service has a cost reduction of 41.21%. This strongly supports the result obtained through the analysis of the data collected by the questionnaire. Among the five banks covered in the study, Abay Bank has no in-house hired Security Officer. Also, the job is not included in the salary scale of the Bank. As a result the triangulation is made based on the data collected from the remaining four banks.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATION AND LIMITATIONS OF THE STUDY

This chapter presents summary findings of the study from the analysis and discussion of collected data; conclusions drawn based on the findings, limitations that have been observed in the study and recommendations to address the problems identified by the study.

5.1 Summary of Major Findings

In the effort to identify the extent of human resource outsourcing, Human Resource practices were listed in the questionnaire for respondents' choice to determine whether a practice is fully outsourced, partially outsourced or not outsourced.

The responses were analyzed with a frequency table. The result shows that five practices namely Security services, Cleaning Services, Health Care, Training and Recruitment and Selection are the most commonly outsourced practices. Of all Security Service is found as completely outsourced practice with response rate of 80.39% fully outsourced and 19.61% partially outsourced.

This means that, the researched Private Commercial Banks in Ethiopia are largely using outsourced human resource rather than direct hired in-house people for the five practices identified as the most commonly outsourced practices in this research.

On the other extreme, ATM Administration is found almost the not-outsourced practice that entirely uses in-house human resource. This indicates operational activities in the Ethiopian Private Banks are running using in-house human resource.

The second objective of the study was to assess the relation between Human Resource Practices Outsourcing and Human Resource Performance. The correlation between Human Resource Practices Outsourcing and Human Resource Performance was found to be 0.453. Among

constructs of the independent variable Health Care was found to be significantly related with the dependent variable with a degree of .378 and Training follows with .365.

The final objective of the study was to measure effect of Human Resource Practices Outsourcing on the dependent variable Human Resource Performance. To address this linear multiple regression was deployed and it was found that a unit increase in Recruitment and Selection has increased Human Resource Performance by 0.055 units. And with the same manner a unit of Training Outsourcing, Security Service Outsourcing and Health Care Outsourcing increased the effect on the dependent variable Human Resource Performance by 0.214, 0.242 and 0.123 units respectively.

5.2. Conclusion of the Study

Based on the findings of this study a number of conclusions can be drawn. The major objective of this study was to investigate the effects of Human Resource Outsourcing on Human Resource Performance. With this objective in mind, a lot of descriptive statistics, correlation and multiple regression analysis were made.

It was being observed that most human resource professionals reported that the existence of moderate to high mean score values on the relationship of Human Resource Practice Outsourcing and Human Resource Performance. In regard to the first section of the objective it can be concluded that the investigation has yielded significant evidence that is in line with the theoretical and empirical studies that this research is based.

Thus, based on the findings it could be concluded that Human Resource Outsourcing plays an important role to improve the level of Human Resource Performance. In general, the results of this study presented significant relationship between Human resource Outsourcing and Human Resource Performance.

The findings of this paper were ended in support of the hypothesis made in this study. The regression R^2 showed the strong correlation between Human Resources Practices Outsourcing and explain 23.4 percent variable in Human Resource Performance. This result therefore indicates Human Resource Practices Outsourcing has significant effect on Human Resource Performance.

In general, the research has established that Private Commercial Banks which adapted Human Resource outsourcing have achieved an improved HR performance related to flexibility in running Training programs, cost reduction from Security Service and efficiency improvement from health Care Service. From the findings of this study, it can be concluded that Human Resource Practices Outsourcing is an important opportunity to enhance further Human Resource Performance.

5.3. Recommendations

In this section, some important suggestions are made on the basis of the findings of the study.

One important aim of this research was to identify commonly outsourced Human Resource Practices in Private Commercial banks that are operating in Ethiopia. There are no study documents in this regard in the case of Ethiopian Private Commercial Banks.

This study has identified the most commonly outsourced Human Resource Practices in the Ethiopian based Private commercial banks. Thus, this finding will serve as the base for any initiative related to Human Resource outsourcing in the case of Ethiopian Private Commercial Banks.

The research has established that Private Commercial Banks which adapted Human Resource outsourcing have achieved an improved HR performance related to flexibility in running Training programs, cost reduction from Security Service and efficiency improvement from

health Care Service. Therefore, to exploit advantages of Human Resource Outsourcing identified in this research and further improve Human Resource Performance in the Private Commercial Banks, the researcher then suggests expansion in Outsourcing Human Resource Practices.

The interview result show that cost reduction related to Security Services Outsourcing is more than 41% which so significant. These banks are also advised to give due care to investigate more the reason of this large difference and expand to other practices. On the other hand its fairness of pay must also be checked to ensure that the gain remains sustainable.

As the findings of this research and other empirical studies indicated, the importance of Human Resource is growing in this day's globalized business. HR Professionals are therefore advised to develop their knowledge in the area of outsourcing in general and in human resource outsourcing in particular to improve their organizational contribution through HR Outsourcing.

5.6. Further Research Direction

While outsourcing is becoming a phenomena in the day to day business practice, researches conducted in Ethiopian Organizations context is so limited. They are not also focused in specific practice or function. Any HR Outsourcing focused research is therefore recommendable.

The researcher endeavored to understand the legal ground of Human Resource Outsourcing in Ethiopia in building background knowledge for this research but could not found any. The prevailing Ethiopian labor law 377/2003 with its amendment proclamation 496/2006 only entertained the triangular relation i.e. the relationship between the Employee, Employer and the Government. Outsourcing on the other hand requires laws that govern the relationship between four parties Employee, Outsourced Human Resource vender (Employer), outsourced employees' service user company, and the Government.

Therefore, research in the legal ground and labor relation practices in the Human Resource outsourcing environment is commendable to prevent legal complication in advance that might

occurred with the expansion of Human Resource practice Outsourcing implementation, in the private Commercial Banks in Ethiopia as well as other organizations.

5.4. Limitations of the Study

The questionnaire used in this study is not standard questionnaire. It is developed by the researcher with consultation other supporters. It might have effect on the result of the study.

The findings of this study are based only on the data collected from five commercial banks that purposely selected based on their establishment homogeny due to resource constraint, majorly time. This may be a limitation to generalize the result to all private commercial banks in Ethiopia or to the banking industry at large.

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Appendix I: QUESTIONNAIRE

**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE GRADUATE PROGRAM
MASTERS IN HUMAN RESOURCE MANAGEMENT**

Questionnaire for Human Resource Professionals of Five selected Private Commercial Banks in Ethiopia

Dear Respondent!

Initially, I would like to forward my sincere thanks for your willingness to devote your precious time by responding this questionnaire.

This questionnaire is designed to request information for purely academic purposes. Your response is indispensable for success in my thesis work entitled, **Assessment of the Effects of Human Resource Outsourcing Practice on HR Performance: On Selected Private Commercial Banks in Ethiopia**. I am **Almaw Addis**, a final year student of Addis Ababa University School of Commerce studying for Master of Arts Degree in Human Resource Management.

I, the researcher realize how valuable your time is. Please attempt all questions. I assure you that every response will be kept confidential. If you have any questions concerning the study, please do not hesitate to write or contact me on the under mentioned address:

Once again thank you so much for your cooperation.

Tele No.: 0911 - 958018

Email Address: aaa_addis@yahoo.com

N.B:

1. You don't need to write your name.
2. The researcher expects the filled questionnaire back within a week.
3. All information given would be treated with utmost confidentiality.

Questionnaire for Human resource Management Staffs

The questionnaire seeks to find out the effects of human resource outsourcing practices on human resource performance of the private commercial Banks of Ethiopia.

Attempt to answer all the questions as honestly possible. **Please follow the instructions on each part.**

Part A: Demographic Information (Please put a tick (✓) in the box next to your answer.)

1. Your academic qualifications:

a) Bellow Diploma

b) Diploma

c) Degree

d) Masters

e) PhD

2. Your service Years in human resource management profession:

a) Less than 3years

b) 3-6years

c) Above 6 years

Part B: General information on HR outsourcing practices (Please put a tick (✓) in the box next to your answer for the following questions)

1. Which of the following HR activities are outsourced in your bank? **More than one answers are possible.**

- Recruiting and Selection Activities
- Training Activities
- Security Services
- Cleaning Services
- Health Care Services
- Transport Management
- Postal Mail Services
- Account Opening
- Cash Management
- ATM Administration

2. When did the bank start human resource outsourcing practice?

- a) At the commencement of operation
- b) After some time

3. If your choice is 'b' for the above question, what did the bank do with the former employees who were offering the services before outsourcing began?

- a) There were no employees
- b) They were placed on other jobs
- c) They were laid off

Part C: the extent of outsourcing: please give only one answer by circling the numbers in the boxes within the table.

Key: 1=no outsourcing, 2=partially outsourced, 3= fully Outsourced

No.	Questions	Extent of Outsourcing		
		1	2	3
1	To what extent do your bank outsource recruitment & selection activity?	1	2	3
2	To what extent do your bank outsource training activity?	1	2	3
3	To what extent do your bank outsource health care service?	1	2	3
4	To what extent do your bank outsource security services?	1	2	3
5	To what extent do your bank outsource cleaning services?	1	2	3
6	To what extent do your bank outsource Transport Management services?	1	2	3
7	To what extent do your bank outsource Postal Mail Services?	1	2	3
8	To what extent do your bank outsource Account Opening activities?	1	2	3
9	To what extent do your bank outsource Cash Management?	1	2	3
10	To what extent do your bank outsource ATM administration?	1	2	3

Part D: HR practices outsourced (independent variables)

Give only one answer for each question in the following 4 tables by circling a number in the boxes as per the following key:

Key: 5= I strongly agree, 4= I agree, 3= I am Neutral, 2= I disagree, 1=I strongly disagree

No.	Questions/ Description	Response				
		5	4	3	2	1
1	Recruitment and selection activities outsourcing reduced HR staffs' burden	5	4	3	2	1
2	Training outsourcing improved training scheduling flexibility	5	4	3	2	1
3	Outsourcing improved efficiency of health care service delivery	5	4	3	2	1
4	Security Service outsourcing reduced HR cost	5	4	3	2	1

Part E: (Effect of human resource outsourcing on HR performance)

Give only one answer for each question in the following 4 tables by circling a number in the boxes as per the following key:

Key: 5= I strongly agree, 4= I agree, 3= I am Neutral, 2= I disagree, 1=I strongly disagree

1. Effect of Recruitment and selection outsourcing on HR staffs' burden reduction

No.	Questions/ Description	Response				
		5	4	3	2	1
1	Reduction in HR staff burden improved job satisfaction	5	4	3	2	1
2	Reduction in HR staff burden improved their work-life balance	5	4	3	2	1
3	Reduction of HR staffs' burden increased their capacity to focus more on their business partnership role	5	4	3	2	1
4	HR staffs' burden reduction has improved HR staffs' morale	5	4	3	2	1

Table-1

2. Effect of training outsourcing on flexibility of HR performance

No.	Questions/ Description	Response				
		5	4	3	2	1
1	Training activities outsourcing improved flexibility in scheduling training programs	5	4	3	2	1
2	Effort to matching venues with participants size become easy	5	4	3	2	1
3	Outsourcing training activities enabled the bank to avail trainers on demand with required capacity	5	4	3	2	1
4	Outsourcing training activities enabled the bank to easily access updated training materials	5	4	3	2	1

Table-2

3. **Effect of Health care service**
outsourcing **on efficiency of HR performance**

No.	Questions/ Description	Response				
1	Health care service outsourcing improved efficiency of health care service delivery to the banks' staffs	5	4	3	2	1
2	outsourcing health care services reduced absenteeism	5	4	3	2	1
3	Outsourcing health care services reduced time to visit specialist doctors by simplifying referral procedures	5	4	3	2	1
4	Outsourcing health care services reduced time to access health facilities	5	4	3	2	1

Table-3

4. **Effect of Security Service**
outsourcing **on HR cost**

No.	Questions/ Description	Response				
1	Security Service outsourcing reduces recruitment cost	5	4	3	2	1
2	The extent of cost reduction is very high after outsourcing security services	5	4	3	2	1
3	Outsourcing security services reduced cost per security officer	5	4	3	2	1
4	Outsourcing security services reduced total HR cost	5	4	3	2	1

Table-4

THANK YOU!!

Annex-II:

Interview questions for Human resource managers:

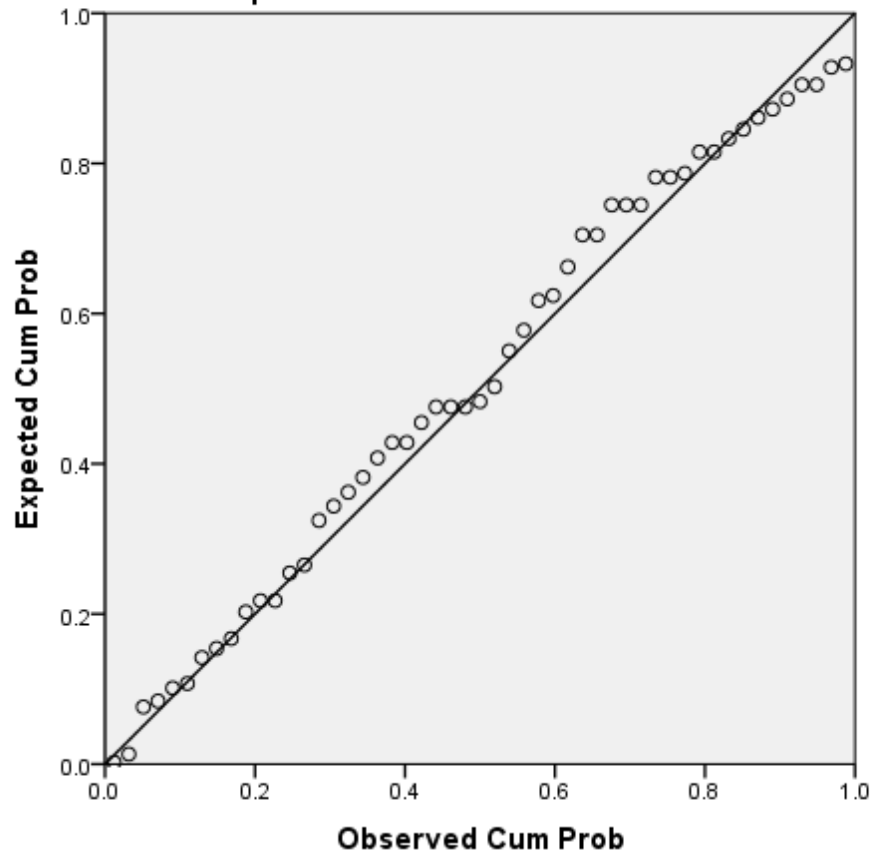
- 1. How many staffs have your bank currently? Permanent _____ Total Outsourced _____ outsourced security Officers _____.**
- 2. How much do you pay for outsourced security officers per person per month?**
- 3. What will be the security officers' pay per person per month, if you directly hire? (Please consider monthly salary, bank's contribution for pension and/or provident fund and monthly allowances).**
- 4. Is there any other payment to the vender or outsourced employees other than your answer for question 3 above?**
- 5. Do you think your HR professional staffs number would have increased, if HRO practices have not been adopted by your bank? If your answer is yes, at least by how much?**

Thank you for your cooperation

Annex-III

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: HRPER



Annex-IV

