

OUTSOURCING IN ETHIOPIA

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OUTSOURCING IN ETHIOPIA

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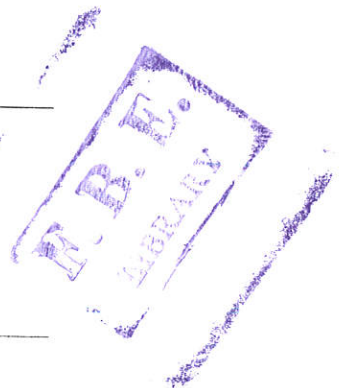


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Abstract

According to Nicholas Beaumont and Amrik Sohal (2004) outsourcing is a fashionable way of solving some business problems and there are numerous reports of its increasing use. However, the use of outsourcing in Ethiopia is very low with the exception of outsourcing some non-core functions like Security service and Janitorial service. Thus, this variation attracts the researcher to undertake a research with the objective of evaluating the current practice and future potential of outsourcing in the country. This research assessed the current practice of outsourcing, identified those business functions that Ethiopian organizations are willing to outsource and pointed out the reasons for outsourcing and not outsourcing. Accordingly, the use of outsourcing in Ethiopia has been low and highly dominated by non-core business functions such as maintenance and janitorial services, security services and information technology services. The findings also confirm that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, the research found out that Accounting and Administration outsourcing service providers will face great challenges from Ethiopian organization to deliver their services. This is mainly due the fact that Ethiopian organizations fear the risk of loss of confidential information and loss of control in outsourcing these business functions. In addition, the organizations assume that the external service providers are not loyal to them in providing such business functions. The most expressed reasons for outsourcing in ascending order are: allowing more focus on core business, improving service level, acquiring innovative ideas and cost savings. On the other hand, the most strongly expressed reasons for not outsourcing, in ascending order, are: loss of control, having no loyalty to company and possible loss of confidentiality.

Chapter One

I. Introduction



1.1 Background of the study

Outsourcing is simply acquiring a product or service from outside supplier rather than producing in the organization or it is transfer or delegation of the operation and day-to-day management of the business process to an external service provider (What is Outsourcing: The Outsourcing Magazine Zone). Presently many organizations outsource one or more of the business function from outside vendors. Moreover, as various researches indicate the trend of outsourcing throughout the world has been increasing from time to time.

Outsourcing is a fashionable way of solving some business problems and most people believe that it is like fad. Initially it had been used primarily for information technology (IT); however, currently a wide variety of business process is being outsourced. The use of outsourcing is becoming more sophisticated; more organizations are outsourcing responsibility for business processes. According to Koonth & Wehrich (2004) the aim of outsourcing may be to reduce costs by saving on personal benefits, or to be able to reassign employees to other tasks that are more important. Other reason why companies engage in outsourcing include gaining access to the best sources available worldwide, sharing of risks between the firm and its suppliers, allocating capital to key success factors, (Harold Koontz and Heinz Wehrich, 2004). In general outsourcing enables a firm to focus on its core competencies and let outside companies do what these firms can do best.

In Ethiopian case the application of outsourcing is in its infancy stage. Currently there are few companies that are engaged in providing limited outsourcing service. The current outsourcing

practice in Ethiopia is limited to a company's non core activities which are confined to recruitment service, security service and janitorial service.

1.2 Statement of the problems

Globally outsourcing becomes more sophisticated and complex. The functions that are being outsourced ranges: from non-core functions like janitorial service to core or main function such as production and Marketing.

The benefits of outsourcing of course are variable, dependent upon the nature and situation of the organization. According to the Outsourcing Management Zone website the following is a list of common reasons why outsourcing is undertaken:

- Lower costs due to economies of scale
- Ability to concentrate on core functions
- Greater flexibility and ability to define the requisite service more readily
- Specific supplier benefits. For example, better security, continuity, etc.
- Higher quality service due to focus of the supplier
- Improved internal management disciplines resulting from the exercise itself
- Less dependency upon internal resources
- Control of budget
- Faster setup of the function or service
- Lower ongoing investment required in internal infrastructure
- Greater ability to control delivery dates (eg: via penalty clauses)
- Lack of internal expertise
- Increase flexibility to meet changing business conditions
- Purchase of industry best practice
- Improve risk management

- Acquire innovative ideas
- Increase commitment and energy in non core areas
- Improve credibility and image by associating with superior providers
- Generate cash by transferring assets to the provider
- Gain market access and business opportunities through the supplier's network
- Turn fixed costs into variable costs

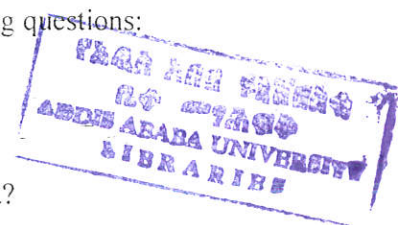
According to Henry Mintzberg and James Brian Quinn (1992), outside service groups can often provide greater economies of scale, flexibility, and levels of expertise for specialized overhead services that virtually any company can achieve internally.

Outsourcing does not come without risks, one main risk that is incurred when outsourcing is that when a firm does outsource, they leave the supply of that product or service in the hands of someone whom they cannot control, contrary to controlling their own supply (Maynard, 2006).

In general, those organizations that outsource report high levels of satisfaction within their staffs and from the clients they serve. These organizations also take a highly pragmatic, business-driven approach to the learning function. Outsourcing is a trend that will continue to grow, especially the outsourcing of technology. Increasingly complex solutions, integration initiatives, budget and staff constraints, and the demand for diverse training resources are among the factors that will fuel the trend, (Bersin, April 2005)

In spite of its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none. Thus, this research tried to answer the following questions:

- What is the existing practice of outsourcing in Ethiopia?
- Which business functions will be successfully outsourced in Ethiopia?



- Which types of organization are willing to outsource some part of their business functions from external vendors?
- What are the reasons for outsourcing?
- What are the reasons for not outsourcing?

1.3 Objectives of the study

Every business books published in recent years brag about outsourcing and its implications; moreover, at the present time outsourcing has been emerging as center of attention for most scholars in business and economics area. This phenomenon attracts the attention of the researcher to undertake a research with the following objectives:

- Identifying the existing practice of outsourcing in Ethiopia
- Identifying those business functions that Ethiopian organization are willing to outsource.
- Identifying the types of organization that are willing to outsource some part of their business functions for external vendors
- Identifying the reasons for outsourcing each business function
- Identifying the reasons for not outsourcing each business function
- Creating awareness among potential investors to engage in outsourcing business

1.4 Significance of the study

One recent trend in United States and in Europe is outsourcing, this means the products and services are contracted to outside vendors that have expertise in a particular area (Henry Mintzberg and James Brain Quinn, 1992). However, in Ethiopia the notion of outsourcing among the society is some how unfamiliar and undiscovered. Moreover, no formal research has been carried out to find out the country's potential in outsourcing. Therefore, I believe that this research has great significance in creating awareness, about outsourcing, among the

society, business people and scholars. Furthermore, this research can serve as stepping stone for other researchers in similar area

1.5 Methodology of the study

1.5.1 Data collection Method

In conducting the research both primary and secondary data source were used. The primary data was collected through questionnaires that have four sections. The first section contains measurement questions that assess the current practice of outsourcing in Ethiopia. The second section is designed to collect information regarding the types of business function that Ethiopian organizations are willing to outsource. The third and fourth section contains a rating scale measurement questions designed to collect the reasons of outsourcing and the reasons of not outsourcing, respectively.

1.5.2 Sampling size, selection and procedure

Even though thirty questionnaires were distributed to top managers of thirty organizations, only 29 of them were able to respond. Furthermore, with the aim of including different types of organization in the research, the organizations are grouped in to six categories and five organizations are randomly selected from each category. The categories are:

- Government organization (Not for profit)
- Non Government organization
- Banks
- Insurances
- Private PLCs
- Other Government Enterprises

Moreover, to increase the quality of the data, enormous effort was made to participate the top management, Presidents, CEOs or department heads, of the organizations in administering the questionnaires.

1.6 Scope and limitation of the study

As stated before, this research deals with the outsourcing in Ethiopia. Outsourcing is a very vast area that covers all the business functions; however, considering the available time and finance, it was not possible to include all business function in this study. Thus, considering available time and budget, and also to make the research more manageable and controllable only the following eight business functions, which the researcher believes the most appropriate under Ethiopia case, were considered:

- ☐ Maintenance & Janitorial service
- ☐ Security service
- ☐ Information technology
- ☐ Procurement & supplies management
- ☐ Accounting service
- ☐ Human Resource
- ☐ Administration function
- ☐ Sales and Marketing

Initially, it was planned to collect additional data form five outsourcing service providers. however, with the exception of one service provider, the other were not willing to respond. Thus, this research is based on only the data obtained from the other thirty organizations (potential outsourcer).

Also, due to time and budget constraint, the study only considered organizations located in Addis Ababa. Therefore, any conclusion that will be drawn from this research is based on the above circumstances.



Chapter Two

II. Literature Review

2.1 The concept of outsourcing

In the English language (and most likely in other languages), “outsourcing” is a relatively new term (Maynard, 2006). Maynard(2006) added that a 1967 edition of Merriam-Webster’s Seventh New Collegiate Dictionary does not carry a listing for “outsourcing,” but a recent check of Merriam-Webster’s Online Abridged Dictionary (<http://webster.com/home.htm>) found the following entry:

Main Entry: out•sourc•ing

Pronunciation: -"sOr-si[ng], -"sor-

Function: noun Date: 1982 “The practice of subcontracting manufacturing work to outside and especially foreign or nonunion companies”

To build up on the above entry Maynard (2006) added that, since 1982 the term outsourcing has evolved to include all parts of the enterprise, not just manufacturing. In many ways, outsourcing is a synonym for sub-contracting.

According to Nicholas Beaumont and Amrik Sohal (2004), outsourcing is defined as having work that was formerly done inside the organization performed by an external organization. They also supplemented that the vendor (hereafter the outsourcer and outsource are, respectively, referred to as vendor and client) may be an independent entity or a wholly owned subsidiary. Alternatively Christine Harland, Louise Knight and Helen Walker, 2005 defined outsourcing as the contracting with an external party to provide services or products that could be provided by an internal source.

Furthermore, Beaumont and Sohal (2004) give the following clarification for Insourcing and Out-tasking so as to show their difference from outsourcing:

Insourcing means applying outsourcing's discipline to internal suppliers, often having them compete with external suppliers.

Out-tasking connotes work being done outside the organization, but the organization retaining full control over the operation; precisely defining the task and how it is to be done. The vendor has no discretion and performs a programmable task. Partnering implies that the client passes discretion for how the task is done to the vendor

To reveal the difference between outsourcing and offshoring Maynard (2006) provides the following explanation:

Today, when a company contracts work from another company, it is called outsourcing. Outsourced work performed locally (i.e. in the same country) is called "onshore outsourcing". Outsourced work performed in other countries that are in roughly the same time zone is called "nearshore outsourcing". For the United States, nearshore would include Mexico, Canada, and many Caribbean Islands. Outsourced work that is performed in countries that are many time zones away or a long distance away is called offshore outsourcing. Examples of offshore locations for the U.S. include China, India, Singapore and South Africa.

According to Maureen Clobberley and Stan Skrzyszewski (1999) outsourcing (contracting out is a synonym) and privatization are possible solutions along a continuum of strategic responses to two major causes of change. These two major causes of change are continued

fiscal restraint in the public sector and the increasing use and functionality of information technology. As a response to fiscal restraint, outsourcing, contracting out and privatization can all be viewed as economic concepts in that they are directed at cost reduction or containment and increasing efficiency and productivity. Other new strategic responses, which may include elements of outsourcing, include joint ventures, strategic alliances, partnerships, re-engineering and rightsizing.

Outsourcing is a hierarchical sequence of decisions. The fundamental decision is whether or not to outsource a business process or function. Outsourcing decisions can be complex because modern organization's applications tend to be integrated with each other, sensitive (poor task performance may affect the organization's reputation); IT applications permeate the firm touch that most activities performed; it may be difficult to hive off and outsource a single application. The criteria used to evaluate outsourcing decisions may be multidimensional and intangible; besides difficult to estimate cost savings, the firm must consider intangible effects such as freeing up managerial time and possible dependence on the vendor (Nicholas Beaumont and Amrik Sohal, 2004)

If the requirement is unique to the organization, but does not give strategic advantage then two alternatives should be considered. If the organization has accumulated specific assets and skills peculiar to the process then in-house processing should be considered (this is especially so if the in-house operation, through experience or economies of scale, is cheaper and/or provides higher quality than potential vendors) (Nicholas Beaumont and Amrik Sohal, 2004). If the internal operation is inefficient or distracts management, an outsourcing partnership should be considered. The partner and client will co-operate by using their skills, experience.

and assets to optimize the process and adapt it to changing business conditions (Nicholas Beaumont and Amrik Sohal, 2004).

According to Nicholas Beaumont and Amrik Sohal (2004) a business process (exemplified by Amazon.com's customer interface) is strategic if it gives a unique competitive advantage. If the business process is strategic, the organization will probably not want to become dependent on or share sensitive knowledge with vendors who might supply the client's competitors; the normal option is insourcing. However, a strategic business process may have several aspects some of which can be outsourced. Although customer relationship management (CRM) may be critical and strategic, it may be appropriate to outsource call center operations while retaining in-house authorship of operators' scripts and responsibility for databases.

2.1.1 Glossary of some typical outsourcing term

Value Based Management website, <http://www.Valuebasedmanagement.net> (2007), posted the following glossary of outsourcing terms:

(a) Service Provider (ASP)

An ASP is a company that rents applications and related services over the Internet. Examples include email, payroll processing and ERP applications.

(b) Business Process Outsourcing (BPO)

BPO is the outsourcing of back office and front office functions typically performed by white collar and clerical workers. Examples include accounting, human resources and medical coding and transcription.

(c) Competitive Insourcing

Competitive Insourcing is a process whereby internal employees engage in bidding to compete with competitive, third-party bidders for a defined scope of work. See also Insourcing.

(d) Contract Manufacturing

Contract manufacturing is the outsourcing of a manufacturing job to an onshore or offshore third-party with the necessary infrastructure and knows how to perform the job.

(e) Co-Sourcing or Cosourcing

Cosourcing is where a business function is performed by both internal staff and external resources, such as consultants or outsourcing vendors, with specialized knowledge of the business function.

(f) Facilities Management

An outsourcing solution in which the customer entrusts to an external services provider, the responsibility for operations and maintenance of one or more facilities.

(g) Insourcing

Insourcing is the transfer of an outsourced function to an internal department of a company, to be managed entirely by employees. The term has also been used to describe foreign companies locating facilities in the United States and employing U.S. workers.

(h) Nearshoring

Nearshore outsourcing or 'nearshoring' is outsourcing within nearby territory, accessible by short travel or telephone in the same or neighboring time zone.

(i) Offshoring

Offshore outsourcing or 'offshoring' is outsourcing overseas or in a separate country. Outsourcing to a contiguous country may be considered nearshore outsourcing (see above). Service Level Agreement (or SLA). An SLA is a contract or addendum to a contract that defines the type, value and conditions of the outsourcing services to be provided. Typically, SLAs address quality of service conditions, such as response time, availability, speed, et cetera.

(j) Shared Services

Shared services is the outsourcing of a business function within an enterprise to a highly skilled internal department or group. For example, the purchasing department at one plant may provide purchasing services to all other plants within a given manufacturing company. Shared services may also be provided to third parties.

2.2 A Short history of outsourcing

Believe it or not, outsourcing began to emerge a few thousand years ago; it started with the production and selling of food, tools and other household supplies (Maynard, 2006). The he added that if you go back far enough in the history of humanity, each person or family provided everything for themselves. They gathered their own berries and nuts, hunted their own food, grew their own crops, skinned hides for clothing and so on. Then villages began to spring up, and people began to specialize. As such, they began to barter with each other for

goods and services, and soon money was invented to help simplify the bartering process. In effect, each worker was outsourcing some activities to other workers.

Outsourcing is not a new phenomenon. Ferdinand and Isabella, as the government of the day, outsourced the discovery of the new world to Christopher Columbus. Not long afterward, armed ships owned and operated by private concerns, known as privateers, held commissions from governments to go forth and capture foreign merchant ships. Sir Francis Drake was knighted for his success as what might be regarded as "an outsourcing agent" for governments (Maureen Cubberley and Stan Skrzyszewski, 1999)

Fast-forward a few thousand years to the industrial age. Very few companies, if any, in the 1800s and early 1900s outsourced any part of their processes; they were vertically integrated organizations. They may have produced or mined raw materials (steel, crops, rubber) and converted that raw material into finished products, and then shipped the finished goods on company owned trucks to company owned retail stores for sale to the public. They were self-insured, did their own taxes, employed their own lawyers, and designed and constructed buildings without assistance from other firms. In short, they outsourced very little (Maynard, 2006)

But specialization, especially of services, led to contracting, which eventually led to outsourcing. The first wave of outsourcing began during the boom of the industrial revolution, and fueled the large-scale growth of services such as insurance services, tax services, accounting services, legal services, architecture and engineering services, and others. The companies who performed this work were typically located in the same country, most likely the same city, as was the customer. In essence, this was onshore outsourcing (Maynard, 2006)

Next came manufacturing outsourcing for low-tech items such as toys, trinkets, shoes, and apparel goods and later, higher value manufactured items like high-tech components and



consumer electronics. Manufacturing was the first activity to begin to move to offshore locations in search of lower costs. As transportation and logistics improved through improved infrastructure and the use of computer technology, the cost of transportation went down, and offshore manufacturing went up. As education and skills improved in lower wage countries, manufacturers moved up the value-curve (Maynard, 2006).

More recently, outsourcing has moved into the world of information technology, pension and 401k benefits, data transcription, and call center operations. This realm is made more and more possible by continued investment in education, improved information technology, the wide adoption of the Internet, and the broad, but still emerging, availability of low cost telecommunications and data communications in third world countries (Maynard, 2006).

In the early 1980s, "outsourcing" typically referred to the situation when firms expanded their purchases of manufactured physical inputs, like car companies that purchased window cranks and seat fabrics from outside the firm rather than making them inside. But in 2004, outsourcing took on a different meaning (Jagdish Bhagwati, Arvind Panagariya and T. N. Srinivasan, Autumn, 2004).

Although outsourcing has been around as long as work specialization has existed, in recent history, companies began employing the outsourcing model to carry out narrow functions, such as payroll, billing and data entry (What is outsourcing:Sourcingmag.com). According toSourcingmag.com website those processes could be done more efficiently and therefore more cost-effectively, by other companies with specialized tools and facilities and specially trained personnel.

Currently, outsourcing takes many forms. Organizations still hire service providers to handle distinct business processes, such as benefits management. But some organizations outsource whole operations (What is outsourcing:Sourcingmag.com).

2.3 Types of Outsourced Services

This section deals with the most common types of outsourced services. According to Bragg (1998) the most common outsourced services are: Accounting Services, Human Resource Function, Maintenance and Janitorial Function, Outsourcing Materials-Management Function Sales and Marketing Function and Administration Function.

2.3.1 Outsourcing the Accounting Function

The accounting is among the most commonly outsourced, though it is usually limited to only a few tasks within the function (Bragg, 1998). There are opportunities to outsource a wide array of services in the area, if company is willing to work with multiple suppliers to achieve this goal. Some example are: virtual payroll can be fully outsourced through internet, collation of accounts receivable can be outsourced from hundreds of supplier, cash management is also another part that can be outsourced by banks, taxation, financial reporting and internal auditing services are also outsourced, accounts payable check printing can be outsourced to more technologically progressive banks, there are also suppliers who specialize in taking in cash receipts on behalf of the company's bank account along with a collection register detailing who paid the money and etc (Bragg, 1998).

Advantages and disadvantages

According to Bragg (1998), the followings are the list of advantages and disadvantages for outsourcing of Accountign function:

Advantages

- The best reason for outsourcing the collections function is the supplier may pursue those customers who refuse to pay with greater energy than would in house collection staff since it requires particular skill in persuading companies to pay for old invoices, and good collections.
- The basic reasons in outsourcing internal auditing function are:
 - Mix of skill
 - Staff quality: the quality of auditing staff supplied is usually quite high
 - Management ability: since the managing audit firm function is only auditing, and then they are good at managing audit.
 - Knowledge of best practices: An auditor who reviews the function of many companies will build up knowledge base of how processes can be performed most efficiently and effectively, or has the access to that knowledge through other auditors at the firm, and can therefore recommend changes to the company.
 - Variable cost: the company only pays for audit performed by the supplier, so the auditing cost can be switched from being a fixed one for an in-house staff to a variable one for an outside staff.
 - Quick access: the company has option to quickly bring in an experienced audit team if it acquires a new business in a foreign location that is inconvenient for its internal staff to reach.

- Reduced travel costs: the company must fly its internal audit, whereas a large auditing firm can assign staff from its regional offices to go to those locations, thus avoiding the excessive travel costs incurred by the internal audit staff.
- No down time: bringing in an audit team only for specific tasks allows the company to avoid the kind of nonproductive downtime that sometimes occurs with an in-house staff, such as the interval between the end of one audit and the beginning of the next.
- No hiring and training costs: the company can avoid the substantial hiring and training costs needed to staff and retain a top-of-the-line in-house audit team.
- Advantage of outsourcing payroll:
 - Avoid having to file payroll tax payments on time.
 - To avoid paying for software update;
 - To avoid printing paychecks;
 - To use direct deposit
 - To use check stuffing: further convenience is for supplier to automatically stuff all checks into envelopes for delivery to employees, which eliminates a clerical task for the accounting staff.
 - To use check delivery to multiple locations:
 - Stamp signature on checks: checks can easily be reviewed subsequent to distribution by pursuing the accompanying payroll reports provided by the supplier; it is easy to correct payroll errors in the next payroll.
 - To use custom and standard reports:

Disadvantages

- The downside of using collections companies is that they can be so aggressive with the company's customers that the customers will refuse to ever do business with the customer again.
- A collections supplier is typically paid a large percentage of each bill collected, normally about one third of the total.
- The reasons why internal auditing should not be outsourced is:
- Cost: An outside auditing firm for internal audits is substantially more expensive than in-house staff, since the hourly cost of this service includes the very substantial overhead of the firm, as well as the profit margin.
- Training: A real concern when moving the audit function to a supplier is that some companies use the internal audit function to train their managers (since the job gives a good knowledge of how the company functions); by taking away this function, the company loses its training ground for the future managers of the company.
- Experience: the perceived quality of the auditors provided by the supplier may be lower than anticipated, since most auditing firm have very high turnover and also like to bring in employees with lower levels of experience in order to give them experience with different accounting systems.
- Responsibility: Management must still realize that it is responsible for the establishment and maintenance of internal controls and the audit of those controls
- Interdependence: An auditing firm is supposed to create "Walls" within its own company that keep its internal audit work from interfering with the independence of its financial statement audit work.
- Conversion problem in case of payroll outsourcing

2.3.2 Outsourcing computer service

Over the last two decades, computer service outsourcing has been seen the largest volume of outsourcing of all functional areas, in terms of the total dollars volume of contracts signed. Some of the contracts have been immense, easily exceeding a billion dollars in value and stretching over as long as 10 years. The companies that have participated in these contracts are representative of the best and largest of the world's cooperation (Bragg, 1998).

According to Bragg (1998) some suppliers even outsource some of their own functions to other suppliers. There are number of functional areas within the computer service umbrella that can be outsourced. One of these functions is data center management, in which the supplier frequently transfers all of the company's mainframe –based applications to a large, centralized facility that it operates for a number of companies, and processes all of the company's software applications from that location. Another function is management of a company's voice and data networks, which requires that the supplier have a staff on-site to fix and upgrade these networks, while also maintaining on-line diagnostics from a remote location to determine how to fix network problems. Another area is the help desk, in which a supplier maintains an off-site staff that answers the queries of company employees regarding problems with their software (either packed or developed in-house). Another function is maintenance of desktop computers, which requires a skilled team of on-site technicians. Yet another function is legacy system maintenance, in which a supplier is brought in to ensure that a long-term, custom –developed software application that the company depends on continues to operate properly. Finally, there is the applications- development function, in which suppliers have a team of systems analysts and programmers develop new software for a company.

Information technology is one of the most popular areas of outsourcing. It can, however, involve a range of issues. For example: software, equipment, premises, people, third party agreements, and so on (IT outsourcing:The Outsourcing Megazin Zone). According to this website all these will need to be carefully considered, and steps to address them included in the transition plan, the SLA and the outsourcing contract (Outsourcing, IT outsourcing).

When considering the outsourcing of IT services, management must be very clear with respect to its expectations. It must clearly define the services themselves - in other words, exactly what it wants to be delivered (IT outsourcing:The Outsourcing Megazin Zone).

It is always a good idea to measure these against the existing services, almost a benchmarking exercise. At the very least, this will provide useful data for use downstream, when consideration of suppliers is undertaken (IT outsourcing:The Outsourcing Megazin Zone). Accoring to Outsourcing Megazin Zone website having defined the requisite IT service, costs should be considered. Again, it is wise to start close to home. What are the current costs? How are these projected to increase (or decrease)? Essentially, a picture is being built here of where the organization currently stands, and where it wishes to stand, with repsect to the IT service. Having established this information, the path to IT outsourcing should be far clearer

Information systems (IS) or information technology (IT) outsourcing can be defined as the transferring of an IS/IT function that was previously carried in-house, to a thirdparty provider. IS/IT outsourcing began evolving in the early 1990s, mainly for supplementing in-house application development. It covers a wide range of IS/IT related functions, including software development, hardware maintenance and web hosting, and constitutes a well established and fast growing industry (Maria Karyda and Evangelia Mitrou, 2006).

Recently, there has been an increased demand for web hosting, e-commerce hosting and remote data storage services. This functionality is provided to organizations by application service providers (ASPs), who provide hardware, software and network infrastructure, as well as business services. To deliver these services most ASPs manage and store the organizations' information resources, and provide access to the end-users through public networks. (Maria Karyda and Evangelia Mitrou, 2006)

According to Maria Karyda and Evangelia Mitrou (2006) the reasons for which companies turn to IS/IT outsourcing are primary financial; they include expectations of improved rate of returns on investments (ROI), reduced cost and economies of scale that could not be realized internally. By outsourcing their IS/IT functions organizations also aim to:

- * have improved access to specialized knowledge and best-practices;
- * receive better quality services;
- * have increased business continuity capability in case of internal incidents;
and
- * Achieve flexibility with regard to technology.

Moreover, Maria Karyda and Evangelia Mitrou (2006) added that companies expect to gain increased competitiveness and a chance to focus their efforts and use their resources on their core competence (Outsourcing, A framework of outsourcing IS/IT).

Outsourcing, however, is not a risk free process. Lacity and Willcock(1998) name a set of risk factors for IS/IT outsourcing, including:

- * treating IT as an undifferentiated commodity to be outsourced;
- * incomplete contracting;
- * failure to build and retain requisite in-house capabilities and skills;
- * power asymmetries developing in favour of the vendor;

- * unrealistic expectations with multiple objectives for outsourcing; and
- * poor sourcing and contracting for development and new technologies. (Outsourcing. A framework of outsourcing IS/IT)

In a recent study (Khalfan, 2004) as quoted by Maria Karyda and Evangelia Mitrou (2006) loss of data confidentiality was ranked first among a set of five risk factors in IS/IT outsourcing. Security considerations in general are widely recognized as important factors impeding wider adoption of IS/IT outsourcing. Other sources of reluctance for outsourcing are related to the qualification and expertise of the providers' employees and to the loss of important knowledge. Moreover, possible risks that are often related to IS/IT outsourcing include unexpected costs and possible complications. Finally, total outsourcing, usually with a single provider, is considered as a high risk strategy.

Thus, organizations strive to achieve a balance between the expected benefits and the relative risks stemming from outsourcing, by choosing the most appropriate answers to the following questions: what to outsource, to whom, when or for how long and finally how to manage the outsourcing arrangement (Maria Karyda and Evangelia Mitrou, 2006)

Advantages and disadvantages

According to Bragg (1998) the following are advantages and disadvantages of outsourcing of Computer service:

Advantages

- ✓ It reduces need of large capital expenditure for computers- this is especially important for cash strapped companies. In outsourcing, not only does the supplier purchase and maintain the entire data center computing power, it needs to maintain services to the

company but it may also purchase all of the company's data center computers for upfront cash.

- ✓ Another reason for adopting outsourcing is that computer services which is one of the most difficult functions to manage. By using this a company with a staff that are trained with old technologies can draw from much larger pool of personnel who have much larger skill set, more experience (since they move around among a number of client sites), and better training.
- ✓ A company can reduce its data center costs by moving running the data processing center, managing the voice and data networks and managing the help desk functions to a supplier.
- ✓ A company can also move its computing costs from being largely fixed to largely variable. A typical computer installation requires a large fixed cost investment in computer, along with salaries for supporting personnel- there are also no variable cost at all. Thus shifting the computer service function to a supplier converts more of a company's costs to variable costs, which allows it to reduce costs as transaction volumes fall.
- ✓ Another advantage of outsourcing is that a company can save on the previously used by its in-house application-development programmers.
- ✓ It is useful to give the function to a supplier if the supplier has better text search engines or expert systems for finding answers in a test database.
- ✓ Another is if the supplier has a more experienced staff, which is especially useful if the company has no help desk at all or one with such junior staff that they can answer only the most basic questions.
- ✓ Many companies have there help desk spread through out the company, a supplier can centralize this function and store all problems in a single data base, which allows

management to see patterns in the problems being fixed, and in turn allows management to anticipate the volume of some types of problems that are likely to arise.

Disadvantages

- ✓ The company must educate its employees about how to contact the help desk supplier.
- ✓ Another issue is that the help desk is the first line of customer satisfaction with the computer service function – if a supplier does a poor job of dealing with employees problems, the issue may filter up to top management, who may recognize the function so that employees need are met.
- ✓ It is also possible that the supplier will not do a good job of tracking open problem.
- ✓ The other primary risks of outsourcing the application- development function is that the company may lose its best programmers. One is that they feel insecure in moving to the supplier, especially if it has a reputation for poor treatment of employees.
- ✓ Some companies may have developed customized programs that they consider to be so valuable that it would risk from a competitive perspective too put them in the hands of the supplier.
- ✓ A concern for many companies is that they may have trouble transferring their software license to a supplier.
- ✓ Another concern in the application development area is that the supplier may charge the company more on per hour basis for its programmers to develop new applications and then it would cost the company to do so itself.

2.3.3 Outsourcing the customer Service Function

One of the newest and fastest growing services in the outsourcing arena is customer service. With this service, a company allows all inbound customer calls to be routed to a supplier –

owned call center that answers customer questions, routes field-service personnel to customer locations for repairs, enters service or product orders from customers and courteously tries to persuade customers not to return products or call service (Bragg, 1998). According to Bragg (1998) a good supplier has the management ability to quickly create a call center and recruit sufficient people to staff it, frequently in a little as few as month. A customer service supplier usually has much better technological expertise as well.

Advantages and disadvantages

According to Bragg (1998), the followings are the list of advantages and disadvantages of Outsourcing the customer Service Function:

Advantages

- ✓ An important reason for using customer service supplier is that the company is dealing with the customer through this function, and must present the best possible face to the customer- and this is the primary area of expertise for the supplier.
- ✓ Hiring a quality customer service supplier gives a company a professional image with its customers.
- ✓ The best suppliers have great experience in rapidly installing call centers. This includes acquiring and training new staff, locating new facilities, installing phone and computer terminals, and building any required links to the company's computer system – and all in record time.
- ✓ The best supplier have finely tuned recruiting skills that they use to select just the right kinds of people, pay and benefit levels calculated to retain their existing staffs, and ongoing training programs designed to maintain the quality of their staffs.
- ✓ A supplier who specializes in one of the area will result in higher customer satisfaction and even higher retention.

- ✓ The other advantage of shifting to customer service supplier is that the company can release the office space previously used by the in house call center for the other purposes.

Disadvantages

- ✓ The supplier must charge a profit in order to get a return on its capital, and also must incur sales and marketing cost that a company would not spend if it had an in house customer service.
- ✓ Supplier may need access to the company's data base. This presents a danger of having supplier employees gain unauthorized access to other parts of the company's data base, as well as making incorrect changes in that portion of data base.

2.3.4 Outsourcing the Human Resource Function

Many aspects of the service provided by the human resources function are clerical and as such can be handed over to the supplier who is better equipped through better technology or economies of scale to administer them (Bragg, 1998). According to Bragg (1998) many human resource services fall into this category, such as medical, life and workers' compensation insurance. Other services, though not clerical, are better left to specialists, such as recruiting, training, outplacement, and relocation. Some tasks are highly unsuitable for outsourcing, such as succession planning and the design of training classes, since these areas require an in depth knowledge of the company and its employees.

Advantages and disadvantages

According to Bragg (1998), the followings are the list of advantages and disadvantages of Human Resource Function:

Advantages

- ✓ Using outplacement supplier to handle all laid-off staff is that a supplier has a full-time professional staff that is experienced in providing such service as resume writing and psychological counseling to outgoing employees. These are skills that most companies do not have in-house. Even if they did, they would be fixed costs, whereas they become a variable cost by outsourcing this task..
- ✓ The primary advantage of outsourcing the life insurance function is that the company can avoid the risk of large losses that accompanies the self-insurance approach.
- ✓ Medical insurance outsourcing also avoids the significant fixed cost associated with having an in-house staff that evaluates medical claims and pay doctors.
- ✓ The advantage of out sourcing recruiting is there is no payment for the recruiting suppliers until the companies get the right candidate. In contrast, an in-house recruiter is a fixed cost who will be paid even if this person cannot find any prospective employees.
- ✓ The supplier has a strong incentive to find good candidates, since otherwise they will not be paid. Alternatively, an in-house recruiter has no incentive.

Disadvantages

- ✓ The supplier only addresses a company's request for short period of time.
- ✓ Some companies go to collages to recruit employees and want to present the solid picture of the company to potential employees during this those visits using an in-house employee who is thoroughly versed in company operations and who can communicate the 'company line' to recruits, is most acceptable.
- ✓ Some supplier in turn outsource some of their function to other suppliers, which means that former employees must travel to the locations of several suppliers

2.3.5 Outsourcing the Maintenance and Janitorial Function

The janitorial function is the most commonly outsourced functions, but many companies do not control the outsourced janitorial functions very well, nor do they regularly examine the performance of the supplier (Bragg, 1998). The maintenance function is far less frequently outsourced. It is most commonly outsourced for transportation equipment, which can easily moved to a supplier's central repair facility, and rarely outsourced for fixed, specialized, in-house equipment (Bragg, 1998).

Advantage and disadvantage

According to Bragg (1998), the followings are the list of advantages and disadvantages of outsourcing the maintenance and janitorial functions:

Advantages

- ✓ The primary disadvantage of outsourcing the janitorial function is that there will still be a need for an in-house person to handle short-notice cleanup problems, such as spills, that cannot wait until the next regularly scheduled visit by the supplier's janitors.
- ✓ One major advantage associated with outsourcing the janitorial function relates to an accounting problem known as step costing. With an in house janitorial staff, a new janitor must be hired once there is a moderate increase in requires services, but that person may not be fully utilized until the facility size has continued to increase for some time. When this function is outsourced, the company only pays an incremental amount for extra square footage that is added to the scope of the janitorial services contract. This represent a significant cost saving.
- ✓ Also in house janitors that stayed for long time in the company will attain the pay levels that are much higher than the normal pay. By outsourcing this, a company can enjoy the reduced cost of lower paid employees.

- ✓ Finally a company does not have to devote very much of its limited management resources to janitorial functions.

Disadvantages

- ✓ Supplier may have minimal experience in the maintenance of some of the company's more specialized equipment.
- ✓ There may also be a problem with obtaining a maintenance supplier if all of the equipment to be maintained is of the large, fixed variety that cannot be moved to suppliers off site, centralized repair facility.
- ✓ The supplier may be unwilling to stock spare parts for the more specialized types of equipment, since they cannot be used for the supplier's other customers.
- ✓ Finally, if the supplier is operating on a fixed-fee basis, there is an incentive to use the cheapest parts to repair the company's equipment.

2.3.6 Outsourcing the Sale and Marketing Function

Outsourcing has been common for many years in the areas of public relations, advertising, and distribution and outside sales, and two of the newer areas that are increasingly being outsourced are telemarketing and direct mail (Bragg, 1998).

Advantages and disadvantages

According to Bragg (1998), the followings are the list of advantages and disadvantages of outsourcing the sale and Marketing function:

Advantages

- ✓ A company can do away with fixed cost having an in-house staff by replacing it with the variable cost of a supplier.

- ✓ Large advertising agency can call upon a large pool of creative talent to design the company's advertising campaign, which may result in a higher quality advertising product than would otherwise be the case if the function were left in house.
- ✓ A company can reduce some of its fixed costs by shifting its public relation work to a supplier, who only can charges for the time spent working on the company's behalf. A public relation agency can have better media contact than most in house staff.
- ✓ The most important advantage of telemarketing is that a supplier is far better than most companies at setting up and managing call centers.
- ✓ Also a company can avoid the capital cost of building a call center, thus releasing funds for other uses.
- ✓ In addition, a telemarketing supplier has greater experience than most companies in writing scripts used to solicit sales.
- ✓ Unlike inbound customer service calls, there is less need to give call center employees access to a company's data base to answer company queries- a practical that presents computer security risk.
- ✓ The solid advantage of outsourcing sales force is the company pays no base salary to an outside salesperson – which the person must subsist on nothing but commission. This means that the company cut its fixed cost.
- ✓ Another advantage is that an outside salesperson is most useful in faraway regions or ones with low sales volume that a company cannot afford to pay a full- time employee to occupy.
- ✓ An outside salesperson is most useful in other countries, where someone must speak the local language and know the custom.

Disadvantages

- ✓ Commission paid to these people is usually much higher than the amount paid to an in house staff.
- ✓ Higher variable cost per call of the supplier, whose price are higher because is must pass through to the company its profit margin and the capital cost of is call centers.
- ✓ Another problem is that the company doesn't have direct control over the people making the calls, so it is possible that customers will be turned off by these callers.
- ✓ The supplier lack of knowledge of the company's industry and product line, this may appear in any publicity release issued by the supplier.
- ✓ Higher cost of advertising supplier, whose fee is normally substantially higher than those of in house staff.

2.3.7 Outsourcing the Administration Function

There are number of service areas within the administration function, and all of them can be outsourced to suppliers. These functions include temporary clerical help, record storage, copying, desktop publishing, and security. Most compares outsource at least a few of these functions, and more appear to be doing so, based on the size and number of suppliers offering services in these areas (Bragg, 1998).

According to Bragg (1998) the following bulleted points note the available services:

- *Clerical*: these suppliers provide temporary labor on short notice and with a specific skill set that a company may not be able to find internally.
- *Record storage*: theses suppliers store records in low-cost, off-site locations, retrieve selected records; and destroy and dispose of records as requested by the company.

- *Copying*: these suppliers can copy documents in a variety of sizes and colors, and can do so in any quantity and takeover a company's in house copying facilities with its own equipment and staff.
- *Desktop publishing*: these suppliers are primarily local shops that can provide enhanced graphics work on documents, such as those used for presentations or company-specific booklets or sales tools.
- *Security*: these suppliers guard company facilities around –the clock or only during specific periods when the work force is absent, providing patrol and check –in services

Advantages and Disadvantages

According to Bragg (1998), the followings are the list of advantages and disadvantages of outsourcing the Administration function:

Advantages

- ✓ One advantage of using a clerical services provider is that it reduces a company's fixed costs. If the service were kept in –house, a company would incur the continuing expense of maintaining a pool of clerical help that may not be fully utilized at all times.
- ✓ Another advantage of using a clerical supplier is that a company can avoid the continuing hassle of recruiting and interviewing temporary workers, as well as of handling the payroll and benefits paperwork associated with the additional staff.
- ✓ A Final advantage of using a clerical supplier is that the company does not have to terminate clerical staff that is not performing to expectations. This is a task that many managers dread. Instead, the company can contact the supplier and request that a clerical person not be sent back to the company the next day, which shifts the termination task to the supplier.

- ✓ There are several excellent reasons for using a record storage supplier. One is that a company can eliminate a large amount of storage space. This is a particularly valid reason if a company is using prime office space.
- ✓ A record storage supplier may base its reputation in the rapid retrieval of documents, so it must do a good job of record organization offsetting the advantage of using a record storage supplier are the cost of the service and the retrieval time .though a supplier may do a better job of organizing its records than a company, it still must transport them back to the company once a document has been requested, and that transportation time is one that a company does not have to worry about if it stores its own documents on-site .
- ✓ A company's outsourcing costs are much lower if there is little retrieval from storage.
- ✓ One of the many advantages of outsourcing the copying function is that the supplier absorbs the cost of the equipment.
- ✓ If a company takes advantage of a print-on demand document- management system that is linked to a digital document library (such as the one marketed by Xerox Business systems), the advantage are particularly apparent. Using a supplier for this service gives a company expert advice on setting up the system, as well as on going maintenance of the service by a knowledgeable staff.
- ✓ Outsourcing the security function presents several advantage .one is that accompany no longer has to deal with the hiring, firing, and other personnel issues of a security force – the supplier takes care of all these administrative details.
- ✓ The best alternative is to outsource the function to a supplier who has a high enough level of skill to rapidly respond to the company's publishing requests .

Disadvantages

- ✓ The primary disadvantage of using a provider of temporary clerical help is that this service is expensive

- ✓ There are two problems with outsourcing the copying function. One is that the price is higher than what a company would incur if it kept the function in-house. The other problem is turnaround time.
- ✓ The reliability of the security staff can sometimes be a problem, since they are sometimes guarding valuable assets, and there is no one to see them if they were to steal those assets.
- ✓ The primary disadvantage of outsourcing the security function is its higher price the supplier charges, a significant premium over the amount paid to its security employees, which includes its bonding, training, and administration fees. The only case in which a company can reduce its security costs by outsourcing is if its internal security staff is very well paid.
- ✓ There are two problems with using a desktop publishing supplier .however .one is the price, which tends to be much higher than the hourly cost of an in-house employee who does the same work .the other problem is that, because the supplier is usually located off-site, it takes longer to review and revise documents than if the person doing the work were located in the same building as the reviewer.



Chapter Three

III. Data Presentation, Analysis and Interpretations

This chapter presents analyze and interpret the data obtained from the primary source. The primary data was obtained form the questionnaire which is designed to collect the necessary data to answer the research questions. The questionnaire was administered for twenty nine organizations, grouped in to six categories, situated in Addis Ababa, Ethiopia.

This chapter is organized in the same way the measurement questions in the questionnaire are organized. Accordingly, the chapter will have four sections. The first section deals with the current practice of outsourcing in Ethiopia. The second section identifies those business functions that will be willingly outsourced by Ethiopian organizations. The justifications for outsourcing a specific business function is presented in the fourth section. The last section deals with the justifications for not outsourcing a specific business function.

3.1 Current Outsourcing Practice in Ethiopia

This section is divided in to two sub sections: the first sub section assess the awareness of top managers of Ethiopian organizations about the concept of outsourcing. The second sub section identifies those business functions currently outsourced by Ethiopian Organizations.

3.1.1 Awareness level of top managers in Ethiopia

To assess the awareness level of top mangers about the concept of outsourcing respondents are asked to show their level ranging from very high to never heard of it.

According to Table 1, none of the respondents have lower than medium level of awareness and 79% of the respondents have more than medium level of awareness about the concept of outsourcing. Thus, the result shows that respondents have reasonable level of awareness about the concept of outsourcing.

Table 1 Awareness of Ethiopian top managers about Outsourcing

Level of Awareness	Frequency	%
Very High	9	31%
High	14	48%
Medium	6	21%
Low	0	0%
Very low	0	0%
Never heard of it	0	0%
Total	29	100%

3.1.2 Business functions currently outsourced by Ethiopian organizations

To assess the current outsourcing practice of Ethiopian organizations, respondents are asked to answer whether they have ever outsourced any business function or not. As the result, 72% of the respondents replied "Yes" and the remaining 28% replied "No", the result is summarized in Figure 1. Moreover, respondents are asked to select the business functions that their organization ever outsourced. To assist their effort the measurement question is presented in the form of checklist with eight business functions and additional space is provided to let them reveal those business functions that they have outsourced but not included in the checklist.

Figure 1 Current and past outsourcing practice of Ethiopian organizations

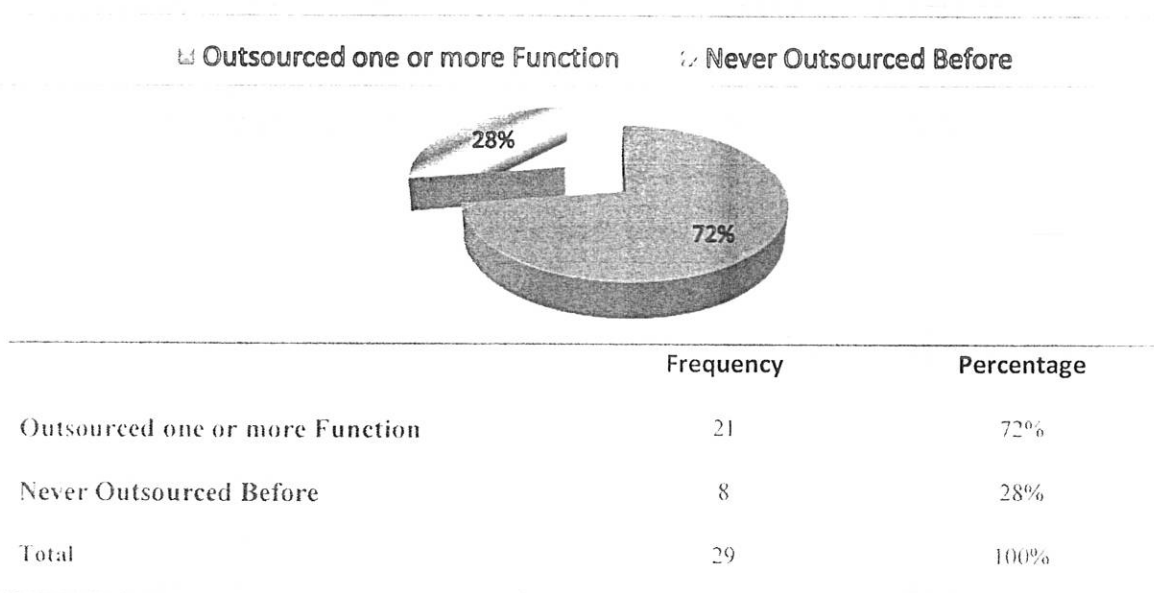


Table 2 Business functions outsourced by Ethiopian Organizations

SN	Business functions	No of Organization Outsourced (out of 29 organization)	Percentage
1	Maintenance & Janitorial service	12	40%
2	Security service	9	30%
3	Information technology	9	30%
4	Procurement & supplies management	3	10%
5	Accounting service	0	0%
6	Human Resource	1	3%
7	Administration function	0	0%
8	Sales and Marketing	1	3%

According to Table 2 the most outsourced business function is maintenance and janitorial service which is outsourced by 40% of the respondents' organizations. Next to maintenance and janitorial service, security service and information technology take the second position. To this end both security service and information technology are outsourced by 30% of the

respondents' organizations. The result, on the other hand, indicates none of the respondents' organizations have ever outsourced accounting service and administration function.

In addition to the above business function some respondents have mentioned that they have outsourced business functions such as community training, agricultural mechanization and public toilet administration.

Thus, a simple glance at Table 2 confirms that the outsourcing practice in Ethiopian is highly dominated by non-core business functions such as maintenance and janitorial service, and security service.

To provide further explanation, the organizations are grouped in to six categories and the business functions that have been outsourced in each category are identified, the result is presented in Table 3. Accordingly, all NGOs and PLCs have outsourcing experience in one or more business functions. Next to NGOs and PLCs, banks and insurance companies assume the second position, 80% of banks and insurances companies have outsourcing experience in one or more business functions. However, the outsourcing experience in government organizations, both for profit and for non profit, is low relative to the other four categories.

Table 3 Current and past outsourcing practice of Ethiopian organization by Category

Category	Number of Organizations Outsourced one or more business function/s (out of five)	Percentage
Banks	4	80%
Enterprises	1	20%
GO Non Profit	3	60%
Insurance	4	80%
NGO	5	100%
PLC (out of four)	4	100%
	21	

Finally, to evaluate the satisfaction of the organizations regarding the outsourced service, respondents are asked to select their level of satisfaction from an option box that contains satisfaction levels ranging from very satisfied to very unsatisfied. The result is summarized in Table 4.

Table 4 Level of satisfaction regarding the outsourced services

Level of satisfaction	Number of Organization	Percentage
Very Satisfied	3	14%
Satisfied	12	57%
Indifferent	3	14%
Unsatisfied	2	10%
Very Unsatisfied	1	5%
<i>Total</i>	21	100%

As Table 4 indicates, there is a high variation in the satisfaction level of organizations regarding the outsourced services. This might be due to the variation in the quality of service provided by different outsourcing service providers.

3.2 Business functions that Ethiopian organizations are willing to outsource

In this section respondents are inquired to select the business functions that their organizations are willing to outsource if there are reliable outsourcing service providers in the country. To this end, a check list of eight business functions is presented to respondents to select from. Consequently, the top three business functions that Ethiopian organizations are willing to outsource in ascending order are: Security service, Maintenance & Janitorial service, and Information technology. This finding can easily be observed from Table 5 that 93% of the organizations are willing to outsource security service, 83% of them are willing to outsource maintenance and janitorial service and 76% of them are willing to outsource information technology. Also the result shows respondents are not willing to outsource administration functions and only one organization, out of the twenty nine, is willing to

outsource accounting service. Thus, this result confirms respondents are not ready to outsource core business functions such as accounting service and administration function. The percentage of organizations that are willing to outsource a specific business function is summarized in Table 5.

Table 5 Business functions that Ethiopian organizations are willing to outsource

	Number of organizations willing to outsource (Out of twenty nine organization)	Percentage
Maintenance & Janitorial service	24	83%
Security service	27	93%
Information technology	22	76%
Procurement & supplies management	11	38%
Accounting service	1	3%
Human Resource	2	7%
Administration function	0	0%
Sales and Marketing	5	17%

Further attempt is made to categorize the above result in to eight categories to assess the readiness of each category to outsource the business functions. According to the result summarized in Table 6, all banks, insurance companies and NGOs are willing to outsource security service and maintenance and janitorial service. In addition all insurance companies are willing to outsource their information technology function to outside service providers. On the other hand, the over all willingness of government organization, both for profit and for non profit, is low relative to the other four categories. This result is parallel with result found in the first section in which the outsourcing experience of government organization, both for profit and for non profit, is low relative to the other four categories.

Table 6: Willingness of Ethiopian organizations to outsource business functions grouped in to eight categories

	Banks (n ¹ = 5)	Enterprises ² (n = 5)	GO (Non Profit) (n = 5)	Insurance (n = 5)	NGOs (n = 5)	PLCs (n = 4)
Maintenance & Janitorial service	100%	40%	60%	100%	100%	80%
Security service	100%	80%	80%	100%	100%	80%
Information technology	40%	80%	60%	100%	80%	80%
Procurement & supplies management	40%	60%	0%	60%	80%	0%
Accounting service	0%	0%	0%	0%	0%	0%
Human Resource	0%	0%	0%	0%	20%	0%
Administration function	0%	0%	0%	0%	0%	0%
Sales and Marketing	0%	40%	0%	0%	20%	40%

3.3 Reasons for Outsourcing

According to Maynard there are a number of reasons that drive companies to outsource some or many of the work activities. The list of reasons include:

- Lower costs (or lower total costs). Sometimes achieved through lower wages costs, but also through economies of scale by providing the same service to multiple companies.
- Improve service. Often, better educated or skilled people perform the task, and thus perform it better.
- Obtain expert skills. An outsource firm is allegedly an expert in that particular activity, and thus should be able to do it better than the customer.

¹ Where n represent the number of respondents in each category

² Enterprises represent public organizations with profit motive.

- Improve processes. Given that outsourcers are very experienced at a particular set of processes, they can help the customer to improve their processes.
- Improve focus on core activities. Outsourcing frees management from having to worry about the inner-workings of a non-core activity. The customer focuses on their core competence, the outsourcer focuses on theirs.

Thus, in this section those organizations that are willing to outsource any of the business functions are asked to rate the importance of 10 reasons for outsourcing (they could also nominate and rate other reasons). Respondents are instructed to indicate how important each reason is in making outsourcing decision using the rating scale where “Very important” is coded as 1 and “very unimportant” is coded as 5. In the subsequent subsections the results of the reasons of outsourcing for each business function are presented in separate tables for each business function. The tables describe the number of respondents for each reason (n), the mean of the rating (Mean), standard deviation of the rating (SD) and the priority of the reasons in making the decision (Rank). The mean of the total rating of each reason is used to assess the importance of the reasons in outsourcing decision. Thus, the rank (the relative importance) is given by comparing the mean of each reason where lower mean is given higher rank whereas higher mean is given lower rank.

3.3.1 Reasons for Maintenance and Janitorial Service Outsourcing

A few pages back to Table 5 confirm that out of 29 respondents, 24 are willing to outsource maintenance and janitorial service. These 24 respondents are asked to rate the importance of the reasons in making the outsourcing decisions.

Table 7 Reasons for maintenance and janitorial service outsourcing

#	Justification for making the decision	n	Mean	SD	Rank
1	Cost Savings	24	1.83	1.05	3
2	Allow more focus on core business	24	1.13	0.45	1
3	Improve service level	24	1.58	0.72	2
4	Reduce risk	24	2.92	0.83	9
5	Control of budget	24	2.83	0.76	8
6	Lower ongoing investment requirement in internal infrastructure	24	2.46	1.06	7
7	Lack of internal expertise (To access skills that we do not have)	24	3.21	1.28	10
8	Increase flexibility to meet changing business conditions	24	2.25	1.29	4
9	Acquire innovative ideas (Access to new technology)	24	2.29	1.23	5
10	Turn fixed costs into variable costs(Free up resources and assets)	24	2.29	0.91	5

The result presented in Table 7 shows the most strongly expressed reasons for outsourcing of maintenance and janitorial service are allowing more focus on core business, improving service level and cost savings which are ranked first, second and third respectively. However, according to Table 7, lack of internal expertise, reducing risks and control of budget are less important reasons for the outsourcing decision of maintenance and janitorial service. In some responses the standard deviation is high (more than 1.5) indicating variation among respondents in evaluating the importance the reasons for the outsourcing decision.

3.3.2 Reasons for Security service outsourcing

Table 8 summarizes the importance of the reasons that the twenty nine respondents, who are willing to outsource security service, replied.

Table 8 Reasons for security service outsourcing

#	Justification for making the decision	n	Mean	SD	Rank
1	Cost Savings	27	1.48	0.89	2
2	Allow more focus on core business	27	1.22	0.51	1
3	Improve service level	27	1.70	0.54	3
4	Reduce risk	27	2.11	0.93	4
5	Control of budget	27	2.89	0.85	9
6	Lower ongoing investment requirement in internal infrastructure	27	2.56	1.01	6
7	Lack of internal expertise (To access skills that we do not have)	27	3.44	1.12	10
8	Increase flexibility to meet changing business conditions	27	2.44	0.85	5
9	Acquire innovative ideas (Access to new technology)	27	2.81	1.08	7
10	Turn fixed costs into variable costs(Free up resources and assets)	27	2.85	1.10	8

In assessing the importance of reasons for security service, respondents granted great weight to allowing more focus on core business, cost savings and improving service level which are ranked 1, 2 and 3 respectively. This result is parallel with the result found in reasons for outsourcing of maintenance and janitorial service. However, for security service cost savings takes the second position whereas for maintenance and janitorial service improving service level takes the second position.

Lack of internal expertise, control of budget, turning fixed costs into variable costs, acquiring innovative ideas and lowering ongoing investment requirement in internal infrastructure, which are ranked 10, 9, 8, 7 and 6 respectively, are less important for the outsourcing decision. However, reducing risk which is rated less important for maintenance and janitorial service rated important for security service.

3.3.3 Reasons for Information Technology outsourcing

It is easy to recall that 76% of respondents are willing to outsource information technology. Consequently, the importance of the reasons provided by the respondents is presented in Table 9. The importance of the reasons provided in this subsection is some how different from the importance of the reasons provided in the previous two subsections. For example, acquiring innovative ideas is rated very important for information technology outsourcing whereas acquiring innovative ideas is rated less important for maintenance and janitorial service, and security service. The most expressed reasons for information technology outsourcing are improving service level, acquiring innovative ideas and allowing more focus on core business, increase flexibility to meet changing business conditions, lack of internal expertise and cost savings which are ranked 1, 2, 3, 4, 5 and 6 respectively. With the exception of reducing risk, which is rated less important, all the other nine reasons are rated either important or very important for information technology outsourcing. Moreover, variations of respondents in rating the importance of the reasons for information technology outsourcing is less compared to the variation observed the previous two subsections.

Table 9 Reasons for information technology outsourcing

#	Justification for making the decision	n	Mean	SD	Rank
1	Cost Savings	22	1.45	0.60	6
2	Allow more focus on core business	22	1.23	0.53	3
3	Improve service level	22	1.09	0.29	1
4	Reduce risk	22	2.64	0.85	10
5	Control of budget	22	2.41	0.73	9
6	Lower ongoing investment requirement in internal infrastructure	22	2.36	1.22	8
7	Lack of internal expertise (To access skills that we do not have)	22	1.32	0.57	5
8	Increase flexibility to meet changing business conditions	22	1.27	0.63	4
9	Acquire innovative ideas (Access to new technology)	22	1.14	0.35	2
10	Turn fixed costs into variable costs(Free up resources and assets)	22	2.00	0.76	7

3.3.4 Reasons for Procurement and Supplies Management Outsourcing

Table 10 summarizes the importance of the reasons for procurement and supplies management outsourcing. Accordingly, the most important reasons for procurement and supplies management outsourcing, in ascending order, are allowing more focus on core business, cost savings and improving service level. This result is comparable with the result obtained in reasons for security outsourcing. Lowering ongoing investment requirement in internal infrastructure is rated less important for procurement and supplies management outsourcing.

Table 10 Reasons for Procurement and Supplies Management Outsourcing

#	Justification for making the decision	n	Mean	SD	Rank
1	Cost Savings	12	1.67	0.49	2
2	Allow more focus on core business	12	1.08	0.29	1
3	Improve service level	12	1.75	0.62	3
4	Reduce risk	12	2.17	1.11	6
5	Control of budget	12	2.33	0.98	7
6	Lower ongoing investment requirement in internal infrastructure	12	2.83	1.11	10
7	Lack of internal expertise (To access skills that we do not have)	12	2.42	0.79	9
8	Increase flexibility to meet changing business conditions	12	2.00	0.74	4
9	Acquire innovative ideas (Access to new technology)	12	2.00	0.74	4
10	Turn fixed costs into variable costs(Free up resources and assets)	12	2.33	0.89	7

3.3.5 Reasons for Human Resource Outsourcing

If you recall back to section two, business functions that Ethiopian organizations are willing to outsource, only one organization, out of twenty nine, is willing to outsource human resource function. Consequently the importance of the reasons of human resource outsourcing is obtained from one respondent. The respondent rated acquiring innovative ideas and

allowing more focus on core business as very important reasons for human resource outsourcing. While cost saving is rated as less important, all the remaining seven reasons are rated as important for human resource outsourcing. The result is summarized in Table 11.

Table 11 Reasons for Human Resource Outsourcing

#	Justification for making the decision	n	Rating
1	Cost Savings	1	3
2	Allow more focus on core business	1	1
3	Improve service level	1	2
4	Reduce risk	1	2
5	Control of budget	1	2
6	Lower ongoing investment requirement in internal infrastructure	1	2
7	Lack of internal expertise (To access skills that we do not have)	1	2
8	Increase flexibility to meet changing business conditions	1	2
9	Acquire innovative ideas (Access to new technology)	1	1
10	Turn fixed costs into variable costs(Free up resources and assets)	1	2

3.3.6 Reasons for sales and marketing outsourcing

According to Table 5 out of 29 respondent 5 are willing to outsource their sales and marketing function to outside service providers and the importance of the reasons for outsourcing the function is presented in Table 12. In this subsection 100% of the respondents rate improving service level as very important reason for their decision to outsource sales and marketing function. Next to improving service level three reasons are ranked second with rating of very important, these reasons are allowing more focus on core business, increase flexibility to meet changing business conditions and acquire innovative ideas. Also in this subsection the variations of respondent is relatively low, for example improving service level is rated one (very important) with the standard deviation of zero. The other important finding in this

section is acquiring innovative ideas is rated very important reason for sales and marketing outsourcing just like it is very important decisions for information technology and human resource outsourcing. Reducing risk, lowering ongoing investment requirement in internal infrastructure and turning fixed costs into variable costs are rated less important reasons for sales and marketing outsourcing.

Table 12 Reasons for Sales and Marketing Outsourcing

#	Justification for making the decision	n	Mean	SD	Rank
1	Cost Savings	5	1.60	0.55	6
2	Allow more focus on core business	5	1.20	0.45	2
3	Improve service level	5	1.00	0.00	1
4	Reduce risk	5	2.60	0.55	8
5	Control of budget	5	1.80	0.45	7
6	Lower ongoing investment requirement in internal infrastructure	5	2.60	0.55	8
7	Lack of internal expertise (To access skills that we do not have)	5	1.40	0.55	5
8	Increase flexibility to meet changing business conditions	5	1.20	0.45	2
9	Acquire innovative ideas (Access to new technology)	5	1.20	0.45	2
10	Turn fixed costs into variable costs(Free up resources and assets)	5	2.80	0.84	10

3.3.7 Reasons for Outsourcing in General

In providing the importance of reasons for outsourcing in general, the average of the mean values of each reasons obtained in the previous six sub sections are considered. Accordingly, the result is summarized in Table 13. Consequently the most strongly expressed reasons for

outsourcing in ascending order are allowing more focus on core business, improving service level, acquiring innovative ideas and cost savings.

Table 13 Reasons for Outsourcing in General

Justification for making the									
#	decision	1 ³	2	3	4	6	8	Average	Rank
1	Cost Savings	1.83	1.48	1.45	1.67	3	1.60	1.84	4
2	Allow more focus on core business	1.13	1.22	1.23	1.08	1	1.20	1.14	1
3	Improve service level	1.58	1.70	1.09	1.75	2	1.00	1.52	2
4	Reduce risk	2.92	2.11	2.64	2.17	2	2.60	2.41	9
5	Control of budget	2.83	2.89	2.41	2.33	2	1.80	2.38	7
6	Lower ongoing investment requirement in internal infrastructure	2.46	2.56	2.36	2.83	2	2.60	2.47	10
7	Lack of internal expertise (To access skills that we do not have)	3.21	3.44	1.32	2.42	2	1.40	2.30	6
8	Increase flexibility to meet changing business conditions	2.25	2.44	1.27	2.00	2	1.20	1.86	5
9	Acquire innovative ideas (Access to new technology)	2.29	2.81	1.14	2.00	1	1.20	1.74	3
10	Turn fixed costs into variable costs(Free up resources and assets)	2.29	2.85	2.00	2.33	2	2.80	2.38	8

3.4 Reasons for Not Outsourcing

According to Bragg (1998)the most common disadvantage of outsourcing of most functional areas are the cost, response time and confidentiality.

³ 1 represents mean rating of Maintenance and Janitorial Service. 2 represents mean rating of Security Service. 3 represents mean rating of Information Technology. 4 represents the mean rating of Procurement and Supplies Management. 6 represents the mean rating of Human Resource and 8 represents the mean rating of Sales and Marketing function.

Thus, in this section those organizations that are not willing to outsource one or more of the business functions are asked to rate the importance of 9 reasons for not outsourcing (they could also nominate and rate other reasons). Respondents are instructed to indicate how important each reason is in making outsourcing decision using the rating scale where “Very important” is coded as 1 and “very unimportant” is coded as 5. In the subsequent subsections the results of the reasons for not outsourcing of each business function are presented in separate tables for each business function. The tables describe the number of respondents for each reason (n), the mean of the rating (Mean), standard deviation of the rating (SD) and the priority of the reasons in making the decision (Rank). The mean of the total rating of each reason is used to assess the importance of the reasons for not outsourcing decision. Thus, the rank (the relative importance) is given by comparing the mean of each reason where lower mean is given higher rank whereas higher mean is given lower rank.

3.4.1 Reasons for Not Outsourcing Maintenance & Janitorial Service

In Table 5, 17% of the respondents are not willing to outsource maintenance and janitorial service. To this end they are enquired to rate the importance of the reasons for not outsourcing the business functions. As the result in Table 14 shows, slow response time and having no significant cost savings are rated as very important for not outsourcing the maintenance and janitorial service. On the other hand respondents rated loss of distinct competences and lack of company knowledge as unimportant reasons for their decision. Likewise, respondents considered possible loss of confidentiality as less important for their decision. The result is summarized in Table 14.

Table 14 Reasons for Not Outsourcing Maintenance & Janitorial Service

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	5	1.40	0.55	2
2	Possible loss of confidentiality	5	3.00	0.71	7
3	Loss of distinct competences	5	3.80	0.45	9
4	Lose of control (Activity requires high level of control)	5	2.80	0.45	6
5	Quality problems (Internal service providers provide better quality)	5	2.60	0.89	5
6	Lack of company knowledge	5	3.40	0.55	8
7	No loyalty to company	5	2.00	0.00	3
8	Slow response time (slow turnaround time)	5	1.20	0.45	1
9	Organization policy/tradition	5	2.20	1.10	4

3.4.2 Reasons for Not Outsourcing Security Service

Only two respondents are enquired to complete this sub section as they are the only respondents, according to Table 5, who are not willing to outsource security service. The most important reasons for not outsourcing security function are possible loss of confidentiality and having no significant cost savings. Both reasons are rated 1 (very important) with standard deviation zero. The other very important reasons next to the previous two reasons are having no loyalty to company and loss of control in which both of them are rated 1.5 with the standard deviation of 0.71. Comparing this result with the result in Table 14, two interesting points can be observed. First, slow response time is rated very important for not outsourcing maintenance and janitorial service while slow response time is rated less important for not outsourcing security service. Second, possible loss of confidentiality is very important reason for not outsourcing security services; however, this reason is less important for not outsourcing maintenance and janitorial service. Lack of company knowledge, slow response time and loss of distinct competences are rated as less important reasons for not outsourcing security service.

Table 15 Reasons for Not Outsourcing Security Service

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	2	1.00	0.00	1
2	Possible loss of confidentiality	2	1.00	0.00	1
3	Loss of distinct competences	2	2.50	0.71	7
4	Lose of control (Activity requires high level of control)	2	1.50	0.71	3
5	Quality problems (Internal service providers provide better quality)	2	2.00	0.00	5
6	Lack of company knowledge	2	3.00	0.00	9
7	No loyalty to company	2	1.50	0.71	3
8	Slow response time (slow turnaround time)	2	2.50	0.71	7
9	Organization policy/tradition	2	2.00	1.41	5

3.4.3 Reasons for Not Outsourcing Information Technology

Seven respondents completed this subsection. Accordingly, all of them rated possible loss of confidentiality as the very important reason for not outsourcing information technology. Loss of control and loss of distinct competence ranked second and third respectively. Quality problems and having no significant cost savings are less important reasons for not outsourcing information technology. Thus, the issues of control and confidentiality are the major reasons that hamper the possible popularity of information technology outsourcing in Ethiopia. The result is summarized in Table 16.

Table 16: Reasons for Not Outsourcing Information technology

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	7	2.57	0.53	8
2	Possible loss of confidentiality	7	1.00	0.00	1
3	Loss of distinct competences	7	1.57	0.79	3
4	Lose of control (Activity requires high level of control)	7	1.29	0.49	2
5	Quality problems (Internal service providers provide better quality)	7	3.14	1.21	9
6	Lack of company knowledge	7	2.29	0.76	6
7	No loyalty to company	7	1.57	0.79	3
8	Slow response time (slow turnaround time)	7	1.86	0.38	5
9	Organization policy/tradition	7	2.43	1.13	7

3.4.4 Reasons for Not Outsourcing Procurement & Supplies Management

Table 17 summarizes the importance of the reasons for not outsourcing procurement and supplies management. As a result, lose of control, quality problems and having no loyalty to company, which are ranked 1, 2 and 3 respectively, are rated as very important reasons for not outsourcing procurement and supplies management. On the contrary, possible loss of confidentiality is considered as unimportant reason for their decision. Similarly, loss of distinct competence is considered as less important for their decision of not outsourcing procurement and supplies management function. Comparing Table 17 with Table 15 and Table 16 conveys additional important point that worth mentioning. To this end, possible loss of confidentiality ranked as the first important reason for not outsourcing both information technology and security service; whereas possible loss of confidentiality is considered as unimportant reason, ranked last, for not outsourcing procurement and supplies management function.

Table 17 Reasons for Not Outsourcing Procurement & Supplies Management

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	17	1.94	0.75	4
2	Possible loss of confidentiality	17	3.53	1.01	9
3	Loss of distinct competences	17	3.35	1.06	8
4	Lose of control (Activity requires high level of control)	17	1.24	0.56	1
5	Quality problems (Internal service providers provide better quality)	17	1.29	0.47	2
6	Lack of company knowledge	17	2.00	0.71	5
7	No loyalty to company	17	1.35	0.70	3
8	Slow response time (slow turnaround time)	17	2.06	0.75	6
9	Organization policy/tradition	17	2.76	1.20	7

3.4.5 Reasons for Not Outsourcing Accounting Service

A simple look at Table 2 confirms that none of the respondents are willing to outsource accounting service. Thus, 29 respondents are enquired to complete this sub section. Accordingly, the importance of the reasons for not outsourcing accounting service is summarized in Table 18. Loss of control, possible loss of confidentiality, having no loyalty to company and loss of distinct competences, which are ranked 1, 2, 3 and 4 respectively, are rated as very important reasons for not outsourcing accounting service. Thus, fear of possible loss of confidentiality and fear of loss of control are the major challenges that accounting Ethiopia service providers face. On the other hand respondents considered quality problem as less important reason for not outsourcing accounting service. Conversely, quality problem is very important reason for not outsourcing procurement and supplies management.

Table 18 Reasons for Not Outsourcing Accounting Service

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	29	2.41	1.24	6
2	Possible loss of confidentiality	29	1.17	0.38	2
3	Loss of distinct competences	29	2.24	1.48	4
4	Loss of control (Activity requires high level of control)	29	1.10	0.41	1
5	Quality problems (Internal service providers provide better quality)	29	2.76	1.09	9
6	Lack of company knowledge	29	2.34	0.90	5
7	No loyalty to company	29	2.17	1.28	3
8	Slow response time (slow turnaround time)	29	2.41	1.12	6
9	Organization policy/tradition	29	2.45	1.21	8

3.4.6 Reasons for Not Outsourcing Human Resource

With the exception of one respondent the other 28 are not willing to outsource human resource. According to Table 19, the most important reasons for not outsourcing human resource, in ascending order, are Loss of control, having no loyalty to company and possible loss of confidentiality. Quality problem and slow response time are considered as less important reasons for not outsourcing human resource.

Table 19 Reasons for Not Outsourcing Human Resource

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	28	2.18	1.12	6
2	Possible loss of confidentiality	28	1.43	0.57	3
3	Loss of distinct competences	28	2.25	1.11	7
4	Loss of control (Activity requires high level of control)	28	1.25	0.44	1
5	Quality problems (Internal service providers provide better quality)	28	2.75	1.14	8
6	Lack of company knowledge	28	1.89	0.92	5
7	No loyalty to company	28	1.39	0.83	2
8	Slow response time (slow turnaround time)	28	2.96	1.23	9
9	Organization policy/tradition	28	1.75	1.00	4

3.4.7 Reasons for Not Outsourcing Administration Function

All the 29 respondents completed this subsection as none of them, according to Table 5, are willing to outsource administration function. Accordingly, possible loss of confidentiality, loss of control and having no loyalty to company are the top three reasons for not outsourcing administration function. Moreover, as Table 20 shows all of the reasons have a mean of less than three indicating all the nine reasons are some how important for the decision of not outsourcing administration function.

Organization policy/tradition takes higher importance for the decision of not outsourcing human resource and administration function than its importance in the decision of not outsourcing the other business functions.

Table 20 Reasons for Not Outsourcing Administration Function

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	29	2.07	0.75	6
2	Possible loss of confidentiality	29	1.14	0.44	1
3	Loss of distinct competences	29	2.14	1.13	7
4	Lose of control (Activity requires high level of control)	29	1.28	0.53	2
5	Quality problems (Internal service providers provide better quality)	29	2.31	1.07	8
6	Lack of company knowledge	29	1.97	0.94	5
7	No loyalty to company	29	1.45	0.87	3
8	Slow response time (slow turnaround time)	29	2.55	1.24	9
9	Organization policy/tradition	29	1.62	0.98	4

3.4.8 Reasons for Not Outsourcing Sales and Marketing

Recalling back to Table 5, out of 29 respondents 24 are not willing to outsource sales and marketing. However, only 15 respondents completed this subsection. This is mainly due to the fact that, 4 respondents from NGOs and 5 respondents from governmental organizations (for non profit) mark this section as inapplicable. According to Table 21, the three very important reasons for not outsourcing sales and marketing function, in ascending order, are possible losses of confidentiality, loss of distinct competences and lose of control. Furthermore the importance of all nine reasons are rated less than three implying all the reasons are some how important for the decision of not outsourcing sales and marketing function.

Table 21 Reasons for Not Outsourcing Sales and Marketing

#	Justification for making the decision	n	Mean	SD	Rank
1	No significant cost savings	15	2.60	1.40	9
2	Possible loss of confidentiality	15	1.00	0.00	1
3	Loss of distinct competences	15	1.13	0.35	2
4	Lose of control (Activity requires high level of control)	15	1.20	0.41	3
5	Quality problems (Internal service providers provide better quality)	15	1.73	0.88	7
6	Lack of company knowledge	15	2.13	0.52	8
7	No loyalty to company	15	1.33	0.62	5
8	Slow response time (slow turnaround time)	15	1.53	0.52	6
9	Organization policy/tradition	15	1.20	0.41	3

3.4.9 Reasons for Not Outsourcing in General

In this section effort is made to recapitulate the importance of reasons for not outsourcing in general. In doing so, the result obtained from Table 14 to Table 21 is added up together and divided by eight to determine the average result. Accordingly, the most strongly expressed

reasons for not outsourcing in ascending order are lose of control, having no loyalty to company and possible loss of confidentiality. The result is summarized in Table 22.

Table 22 Reasons for Not Outsourcing in General

#	Reasons	1 ⁴	2	3	4	5	6	7	8	Ave.	Rank
1	No significant cost savings	1.40	1.00	2.57	1.94	2.41	2.18	2.07	2.60	2.02	4
2	Possible loss of confidentiality	3.00	1.00	1.00	3.53	1.17	1.43	1.14	1.00	1.66	3
3	Loss of distinct competences	3.80	2.50	1.57	3.35	2.24	2.25	2.14	1.13	2.37	8
4	Lose of control (Activity requires high level of control)	2.80	1.50	1.29	1.24	1.10	1.25	1.28	1.20	1.46	1
5	Quality problems (Internal service providers provide better quality)	2.60	2.00	3.14	1.29	2.76	2.75	2.31	1.73	2.32	7
6	Lack of company knowledge	3.40	3.00	2.29	2.00	2.34	1.89	1.97	2.13	2.38	9
7	No loyalty to company	2.00	1.50	1.57	1.35	2.17	1.39	1.45	1.33	1.6	2
8	Slow response time (slow turnaround time)	1.20	2.50	1.86	2.06	2.41	2.96	2.55	1.53	2.13	6
9	Organization policy/tradition	2.20	2.00	2.43	2.76	2.45	1.75	1.62	1.20	2.05	5



⁴ 1 represents mean rating of Maintenance and Janitorial Service, 2 represents mean rating of Security Service, 3 represents mean rating of Information Technology, 4 represents the mean rating of Procurement and Supplies Management, 5 represents the mean rating of Accounting Service, 6 represents the mean rating of Human Resource, 7 represents mean rating of Administration Function and 8 represents the mean rating of Sales and Marketing function.

Chapter 4

IV. Summary, Conclusion and Suggestions for Future Researches

This chapter is divided into three sections. The first section summarizes the whole research stressing the major findings, the second section presents the conclusion of the research and the third section suggests important points for future researches.

4.1 Summary

According to Nicholas Beaumont and Amrik Sohal (2004) outsourcing is a fashionable way of solving some business problems and there are numerous reports of its increasing use. However, the use of outsourcing in Ethiopia is very low with the exception of the use of some non-core functions like Security service and Janitorial service. Thus, this variation attracts me to undertake a research with the following objectives:

- Identifying the existing practice of outsourcing in Ethiopia
 - Identifying those business functions that Ethiopian organizations are willing to outsource.
 - Identifying the types of organizations that are willing to outsource some part of their business functions for external vendors
 - Identifying reasons for outsourcing each business function
 - Identifying reason for not outsourcing each business function
 - Creating awareness among potential investors to engage in outsourcing business
- In conducting the research both primary and secondary data sources were used. The primary data was obtained through twenty-nine questionnaires administered to top managers of twenty-nine organizations, which are categorized into six⁵, situated in Addis Ababa.

⁵ The categories are: Government organization (Not for profit), Non Government organization, Banks, Insurance Companies, PLCs and Other Government Enterprises (for profit)

To make the research more manageable and controllable only the following eight business functions are considered:

- ☐ Maintenance & Janitorial service
- ☐ Security service
- ☐ Information technology
- ☐ Procurement & supplies management
- ☐ Accounting service
- ☐ Human Resource
- ☐ Administration function
- ☐ Sales and Marketing

The major findings of the research are summarized as follows:

Current outsourcing practice in Ethiopia

- ✓ Respondents have reasonable level of awareness about the concept of outsourcing.
- ✓ 72% of the respondents have the experience of outsourcing in one or more business function
- ✓ The most outsourced business function is maintenance and janitorial service. Next to maintenance and janitorial service, security service and information technology take the second position.
- ✓ None of the respondents' organizations ever outsourced Accounting Service and Administration Function.
- ✓ All respondent from NGOs and PLCs have outsourcing experience in one or more business functions. Next to NGOs and PLCs, banks and insurance companies assume the second position.

- ✓ Respondents from government organization, both for profit and for non profit, have low outsourcing experience relative to the other four categories
- ✓ There is high variation in the satisfaction level of organizations regarding the outsourced service. 71% of the respondents are either satisfied or very satisfied with outsourced services whereas 15% of the respondents are either unsatisfied or very unsatisfied with the outsourced service.

Business functions that will be effectively outsourced in Ethiopia

- ✓ The top three business functions that Ethiopian organizations are willing to outsource, in ascending order, are: Security service, Maintenance & Janitorial service, and Information technology.
- ✓ Respondents are not willing to outsource accounting service and administration function
- ✓ All respondents from banks, insurance companies and NGOs are willing to outsource security service and maintenance and janitorial service. In addition, all respondents from insurance companies are willing to outsource their information technology function to outside service providers.
- ✓ Respondents from government organizations, both for profit and for non profit, have low over all willingness for outsourcing relative to the other four categories.

Reasons for Outsourcing

- ✓ The most strongly expressed reasons for outsourcing of maintenance and janitorial service are: allowing more focus on core business, improving service level and cost savings which are ranked first, second and third respectively. Conversely, lack of internal expertise, reducing risks and control of budget are less important reasons for the outsourcing decision of maintenance and janitorial service
- ✓ In assessing the importance of reasons for security service, respondents granted great weight, in ascending order, to allowing more focus on core business, cost savings and

improving service level. Lack of internal expertise, control of budget, turning fixed costs into variable costs, acquiring innovative ideas and lowering ongoing investment requirement in internal infrastructure are less important for security service outsourcing decision.

- ✓ The most expressed reasons for information technology outsourcing, in ascending order, are: improving service level, acquiring innovative ideas, allowing more focus on core business, increase flexibility to meet changing business conditions, lack of internal expertise and cost savings. On the contrary, Reducing risk is rated as less important reason for information technology outsourcing
- ✓ The most important reasons for procurement and supplies management outsourcing, in ascending order, are: allowing more focus on core business, cost savings and improving service level. Lowering ongoing investment requirement in internal infrastructure, on the other hand, is rated less important for procurement and supplies management outsourcing.
- ✓ Acquiring innovative ideas and allowing more focus on core business are very important reasons for human resource outsourcing. While cost saving is rated as less important, all the remaining seven reasons are rated as important for human resource outsourcing.⁶
- ✓ 100% of the respondents rated “improving service level” as very important reason for their decision to outsource sales and marketing function. Next to improving service level three reasons are ranked second with rating of very important, these reasons are allowing more focus on core business, increase flexibility to meet changing business conditions and acquire innovative ideas. Reducing risk, lowering ongoing investment requirement in internal infrastructure and turning fixed costs into variable costs are rated less important reasons for sales and marketing outsourcing.

⁶ This finding is based on the response of one respondent

- ✓ Finally, most strongly expressed reasons for outsourcing in general, in ascending order, are allowing more focus on core business, improving service level, acquiring innovative ideas and cost savings.

Reasons for Not Outsourcing

- ✓ Slow response time and having no significant cost savings are rated as very important for not outsourcing the maintenance and janitorial service. On the other hand respondents rated loss of distinct competences and lack of company knowledge as unimportant reasons for their decision. Likewise, respondents considered possible loss of confidentiality as less important for their decision.
- ✓ The most important reasons for not outsourcing security function are possible loss of confidentiality and having no significant cost savings. The other very important reasons for not outsourcing security service next to the previous two are having no loyalty to company and loss of control. On the other hand, lack of company knowledge, slow response time and loss of distinct competences are rated as less important reasons for not outsourcing security service⁷.
- ✓ All the respondents rated possible loss of confidentiality as very important reason for not outsourcing information technology. Loss of control and loss of distinct competence ranked second and third respectively. However, Quality problems and having no significant cost savings are less important reasons for not outsourcing information technology.
- ✓ Lose of control, quality problems and having no loyalty to company, which are ranked 1. 2 and 3 respectively, are rated as very important reasons for not outsourcing procurement and supplies management. On the contrary, possible loss of confidentiality is considered

⁷ This finding is based on the responses of two respondents

as unimportant reason for their decision not outsourcing procurement and supplies management.

- ✓ Loss of control, possible loss of confidentiality, having no loyalty to company and loss of distinct competences are rated as very important reasons for not outsourcing accounting service. On the other hand respondents considered quality problem as less important reason for not outsourcing accounting service
- ✓ The most important reasons for not outsourcing human resource, in ascending order, are Loss of control, having no loyalty to company and possible loss of confidentiality. Quality problem and slow response time, on the other hand, are considered as less important reasons for not outsourcing human resource.
- ✓ Possible loss of confidentiality, loss of control and having no loyalty to company are the top three reasons for not outsourcing administration function. Moreover, all of the reasons have a mean of less than 3 (less important) indicating all the nine reasons are some how important for the decision of not outsourcing administration function.
- ✓ Organization policy/tradition takes higher importance for the decision of not outsourcing human resource and administration function than its importance in the decision of not outsourcing the other business functions.
- ✓ The three very important reasons for not outsourcing sales and marketing function, in ascending order, are possible losses of confidentiality, loss of distinct competences and lose of control. Furthermore the importance of all nine reasons are rated less than 3 (less important) implying all the reasons are some how important for the decision of not outsourcing sales and marketing function.

4.2 Conclusion

Outsourcing is a fashionable management technique. Unlike other management fads, such as quality control or participation, there are good theoretical reasons such as access to economies of scale and expertise for its use (Nicholas Beaumont and Amrik Sohal, 2004). Despite the reasonable level of awareness of top level managers about the concept of outsourcing, the use of outsourcing in Ethiopia has been low and highly dominated by non-core business functions such as maintenance and janitorial services, security services and information technology services. The variation in the satisfaction level of respondents regarding the outsourced services may be due to either the variation of service level provided by different service providers or the variation of expectation level of the organization (outsourcer).

The findings also confirm that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, Accounting and Administration outsourcing service providers will face great challenges from Ethiopian organization to deliver their services. This is mainly due to the organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

The importance given to the reasons for outsourcing found to be varying among different business functions. For example, acquiring innovative ideas is rated as very important reason for information technology outsourcing whereas acquiring innovative ideas is rated as less important reason for the outsourcing decision of maintenance and janitorial service, and security service. The same is true for the importance given to the reasons for not outsourcing. For example, possible loss of confidentiality is rated as very important reason for not

outsourcing security service, Information Technology and Sales Marketing function, whereas the same reason is rated as unimportant for the decision of not outsourcing procurement and supplies management function.

Finally, with regard to the importance of reasons for outsourcing in general, the most expressed reasons for outsourcing in ascending order are: allowing more focus on core business, improving service level, acquiring innovative ideas and cost savings. Similarly, the most strongly expressed reasons for not outsourcing, in ascending order, are: loss of control, having no loyalty to company and possible loss of confidentiality.

4.3 Suggestions for Future Researches

Despite its popularity in most parts of the world, the experience of outsourcing in Ethiopia is minimal. Furthermore, no formal research has been done in this area to assess the impacts, challenges and prospects of outsourcing in the country. To this end, this preliminary research provides vast findings, which can also serve as a stepping stone for other related research, regarding outsourcing in Ethiopia. However, this research is very general which require further investigations both in breadth and depth. Thus, future researches should consider an in-depth study on the outsourcing of each business function. The other important point is that, this research considered only eight business functions even if outsourcing is a very vast area that covers all the business functions. Therefore, future researches should incorporate the impacts, challenges and prospects of other business functions.

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Annex

Addis Ababa University
Faculty of Business and Economics
Masters of Business Administration (MBA) Program

First of all I would like to forward my heart felt gratitude and respect to you for administering this questionnaire honestly and responsibly. The questionnaire is designed to collect the necessary information to undertake a research on the topic “outsourcing in Ethiopia” for the partial fulfillment of the requirements of the degree of Masters of Business Administration.

Outsourcing is simply acquiring a product or service from outside supplier rather than producing in the organization or it is transfer or delegation of the operation and day-to-day management of the business process to an external service provider. Globally many organizations outsource one or more of their business function from outside vendors. Moreover, as various researches indicate the trend of outsourcing through out the world has been increasing from time to time. However, the practice of outsourcing in Ethiopia is at its infancy stage, thus the objective of this research is to identify the major challenges and prospects of outsourcing in Ethiopia.

Outsourcing is a strategic issue which should be handled by top management of an organization, thus I believe this questionnaire should be administered by the top managers of the organization, preferably by General Manager/ Executive Director/ President or Managing Director.

Finally, I would like to confirm you that all the information you provide in this questionnaire will be confidential and will exclusively be used for research purpose.

Thank You

Mersea Mulat

Part I Questions designed to assess the current status of Outsourcing in Ethiopia

1. Please specify in which Category your organization belongs to. (Put $\checkmark$ Mark).

☐ Government organization (Non for Profit)

☐ Non Government organization (Humanitarian)

☐ Bank

☐ Insurance company

☐ Private PLC

☐ Other government enterprises

2. What is your level of awareness about the concept of outsourcing? (Put $\checkmark$ Mark).

☐ Very high

☐ High

☐ Medium

☐ Low

☐ Very low

☐ Never heard of it

3. Have your organization ever outsourced any business function? (Put $\checkmark$ Mark).

☐ Yes

☐ No

4. If your answer for question three is yes, please specify the type of business function that your organization ever outsourced. (Put $\checkmark$ Mark). **NB:** you can mark more than one box.

☐ Maintenance & Janitorial service

☐ Security service

☐ Information technology

☐ Procurement & supplies management

☐ Accounting service

☐ Human Resource

☐ Administration function

☐ Sales and Marketing

☐ Other _____

5. If your answer for question three is yes, are you satisfied with the outsourced services? (Put $\checkmark$ Mark)

☐ Very satisfied

☐ Satisfied

☐ Indifferent

☐ Unsatisfied

☐ Very unsatisfied

Part Two: Questions designed to collect information about the position of organizations regarding outsourcing.

1. If there are reliable outsourcing service providers in Ethiopia, which business functions most likely will be outsourced by your organization? (Put $\checkmark$ Mark).

NB: you can mark more than one box

- | | |
|--|--|
| ☐ Maintenance & Janitorial service | ☐ Accounting service |
| ☐ Security service | ☐ Human Resource |
| ☐ Information technology | ☐ Administration function |
| ☐ Procurement & supplies management | ☐ Sales and Marketing |

2. If your organization is willing to outsource one or more of the business functions listed in question number one, what are your reasons for outsourcing those business functions? (Follow the following instructions)

INSTRUCTIONS

- ☞ Indicate how important you feel each item in making decision of outsourcing the business functions using the following rating scale:

1 = Very important	3 = Less important	5 = Very unimportant
2 = Important	4 = Unimportant	

- ☞ Put " $\checkmark$ " Mark in the appropriate column to signify the importance level of each item.
☞ Rate only the appropriate tables according to your answer for question number one.

NB: Rate this table if your organization is willing to outsource Maintenance and janitorial service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	Other justification: (Please list and rate them):					

NB: Rate this table if your organization is willing to outsource Security Service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	Other justification: (Please list and rate them):					

NB: Rate this table if your organization is willing to outsource Information Technology in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	Other justification: (Please list and rate them):					

NB: Rate this table if your organization is willing to outsource Procurement and Supplies Management in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					

#	Justification for making the decision	1	2	3	4	5
10	Turn fixed costs into variable costs(Free up resources and assets)					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is wiling to outsource Accounting Service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is wiling to outsource Human Resource in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is wiling to outsource Administration Function in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					

#	Justification for making the decision	1	2	3	4	5
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is willing to outsource Sales and Marketing in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	Cost Savings					
2	Allow more focus on core business					
3	Improve service level					
4	Reduce risk					
5	Control of budget					
6	Lower ongoing investment requirement in internal infrastructure					
7	Lack of internal expertise (To access skills that we do not have)					
8	Increase flexibility to meet changing business conditions					
9	Acquire innovative ideas (Access to new technology)					
10	Turn fixed costs into variable costs(Free up resources and assets)					
	<i>Other justification: (Please list and rate them):</i>					

3. If your organization is not willing to outsource one or more of the business functions listed in question number one, what are your reasons for your decision?
(Follow the following instructions)

INSTRUCTIONS

- ☞ Indicate how important you feel each item in making the decision of not outsourcing the business functions using the following rating scale:

1 = Very important

3 = Less important

5 = Very unimportant

2 = Important

4 = Unimportant

- ☞ Put “√” Mark to signify the importance level of each item.
- ☞ Rate only the appropriate tables according to your answer for question number one

NB: Rate this table if your organization is not willing to outsource Maintenance and janitorial service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					

#	Justification for making the decision	1	2	3	4	5
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is not willing to outsource Security Service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is not willing to outsource Information Technology in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is not willing to outsource Procurement and Supplies in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is not willing to outsource Accounting Service in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	<i>Other justification: (Please list and rate them):</i>					

NB: Rate this table if your organization is not willing to outsource Human Resource in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					

#	Justification for making the decision	1	2	3	4	5
9	Organization policy/tradition					
	Other justification: (Please list and rate them):					

NB: Rate this table if your organization is not willing to outsource Administration Function in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	Other justification: (Please list and rate them):					

NB: Rate this table if your organization is not willing to outsource Sales and Marketing in question number one, otherwise leave it blank

#	Justification for making the decision	1	2	3	4	5
1	No significant cost savings					
2	Possible loss of confidentiality					
3	Loss of distinct competences					
4	Lose of control (Activity requires high level of control)					
5	Quality problems (Internal service providers provide better quality)					
6	Lack of company knowledge					
7	No loyalty to company					
8	Slow response time (slow turnaround time)					
9	Organization policy/tradition					
	Other justification: (Please list and rate them):					

Thanks

Declaration

I, the undersigned, declare that this is my original work and has not been presented for a degree in any other university, and all source of materials used for the study has been duly acknowledged.

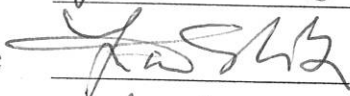
Declared By Mersea Mulat

Signature 

Date July 31, 2007

Confirmed by advisor:

Name Fewdie Shibre

Signature 

Date 10/08/07