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**Challenges and Prospects of Outsourcing: The Case of Commercial
Bank of Ethiopia**

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*A Thesis submitted to the school of Graduate Studies of Addis Ababa University in
Partial Fulfillment for the Degree of Masters of Art in Public Management and Policy
(MPMP) in the Department of Public Administration and Development Management*

May, 2015

Addis Ababa, Ethiopia

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Declaration

I, Abebe Maru declare that this thesis is my own work and has not been previously submitted for the ward of degree in any university.

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Acknowledgement

First and for most I am very enchanted to take this opportunity to thank almighty God who helped me to begin and finish this study.

Second, I would like to thank my advisor Dr. Jemal Abagissa for his valuable and constructive criticism from the very beginning to the end that guided me to the right direction.

Next, my deepest thanks goes to CBE employees and employees of the service provider working in CBE who helped me by filling the questionnaires and providing documents that used as an input for the study, especially Ato Belete Kene manager of CBE outsourcing administrative office and Ato Derje Debessa manager of Human resource in commercial nominees PLC gave their office hours for me to conduct an interview.

Moreover, when I looked back on the past, from where I have started to follow my dreams there have always been people who gave me enormous courage, inspiration and support. In relation to this I would like to truly and deeply thank my father and Ato kassahun Asress.

Last but not least thanks are due for my friends and work colleagues for their support and encouragement.

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List of Abbreviations

FFIC- Federal Financial Institutions Examination Council

CBE- Commercial Bank of Ethiopia

CN- Commercial Nominees

HR- Human Resource

PLC -Private limited company

SLA- Service Level Agreement

US- United State of America

Abstract

The purpose of this research is to assess the challenges and prospects of outsourcing the security, messenger and janitorial services in commercial bank of Ethiopia and to come up with the possible solution to minimize the existing problems. The study covers CBE branches under west Addis district and the outsourcing administrative office. The researcher used both qualitative and quantitative data collected through questionnaires, interview, and review of CBE service level agreement document.

The findings of the study show that the outsourced services enabled the bank to save managers time, give more attention for the core functions of the bank rather than non core areas and expand its branch aggressively. On the contrary defining SLA, selecting the right vendor, loss of direct controlling and measuring service qualities were the challenges of the bank as the result of outsourced services. In addition to these, employees of the service provider were not properly trained about their job, lack motivation and belongingness, not properly equipped with materials that help to perform their job. Thus, the performance of the service provider was not as per service level agreement. Finally, it is recommended that commercial bank of Ethiopia should deal with the service provider to revise the service level agreement and enforce the service provider to facilitate the necessary training to improve employees' skill and to provide working materials for a particular job. The bank also need to follow up the service quality as per SLA and check the amount of commission that the service provider collect from each employees monthly salary as compare with the bank paid to the service provider per individual employee.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Out sourcing is the handing over of assets, resources, activities, or people to third party management to achieve agreed performance (Wilcocks and Lacity 2006). Until 1989 outsourcing was not formally identified as a business strategy. However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business (Handfield, 2006). In earlier periods, cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing shifting to improve the services delivered by the company (Diskstein and Flast, 2009).

According to Aran and Patel (2005), outsourcing is driven by a number of factors such as costs, focusing on core areas, improve service level and process innovation, of all these cost consideration and the need to focus on core activities seems to be the prominent drivers. Through a time reducing the cost has become a trivial factor rather value addition to the business is the main focus. Handfield (2006) add more on this, the current stage in the evolution of outsourcing is the development of strategic partnerships. In relation to this the focus today is less on ownership and more on developing strategic partnerships to bring about enhanced result. Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. As the result in today's world the drivers are often more strategic, and focus on carrying out core value-adding activities in-house where an organization can best utilize its own core competencies.

There are no simple criteria to conduct an outsourcing versus in-house analysis. According to Buelen et al (2006) whether in a specific company situation to be outsourced or not depends on a number of internal and external factors: the extent to which the activity belong to the core of the organization ,the existing market for the service to be produced, the capacity of outsider provider ,the increasing of transaction cost etc. At the time of selecting service provider, their

competency and practice must be taken in to consideration as well as their flexibility and the extent of their knowledge of the service recipient company. As Brown and Wilson (2005) outsourcing can work for any size company in any industry; there is no correlation between the success of the program and size or type of firm. Rather the success of an outsourcing program depends on planning, execution, selection of the right partner, and flexible service level agreements with the outsourcing provider.

Outsourcing has emerged as the most powerful tool for companies seeking to stay in today's competitive business environment. Its concept and practice is an infant in the Ethiopia context but a few years ago some organizations in Ethiopia tried to outsource some of their non core functions, and commercial bank of Ethiopia is one of these organizations.

Commercial bank of Ethiopia (CBE) was established in 1942 and it is pioneer to introduce modern banking to the country. As CBE is the largest bank and development partner of the Ethiopian Government, it is expected to mobilize much amount of deposit. Currently, Commercial Bank of Ethiopia has 15 district offices and more than 800 branches throughout the country which are serving as market outlets (www.combanketh.et).

Within a few years Commercial bank of Ethiopia expanded its branch in an alarming rate in the four corners of the country. Parallel to this, its activities which are the core and non core functions are also increased, and the burden of management become very high from time to time. As the need to emphasize on the value-added functions such as internet banking, mobile banking, card banking and interest free banking were increased, commercial bank of Ethiopia has considered outsourcing five years ago (since 2010) to reduce day to day administrative burdens as well as to get improved quality service. Commercial bank of Ethiopia has been further expanding its branch, the type of service and means of providing the service. Hence, such core activities are demanding increased emphasis of the decision makers and allocation of more resources as they are strategic functions of the bank that enable to provide quality of services to its customers . To provide a ground to focus on the core activities and improve service qualities, the management of the CBE came to the decision to transfer some of the non core functions to an external service provider. In relation to this the three services namely security service, messenger

service and janitorial service have been outsourced to Dejen security and janitorial PLC since 2010. But after three years CBE contractual agreement with Dejen was stopped and from the year 2013 these services have been transferred to another new service provider organization called Commercial Nominees PLC.

According to CBE (2009) document, the bank has already envisaged the banking industry is becoming very competitive, especially with the establishment of an increasing number of new private banks. Beyond the local competition the vision of CBE is “to be a world class commercial bank by 2025” .To be a world class bank CBE to prepare itself for the forthcoming challenges in order to safeguard and improve its position.

On the other hand, the customer base is widened from individuals and small households to large enterprises. It is crucial for CBE to be able to meet the needs and increasing demand of customers for better and improved products or services in terms of banker-customer relationship. In relation to this the efficiency and effectiveness of the CBE have to be supported with the participation of outside specialist service providers that leads to outsourcing. The Bank found it significantly very important to consider outsourcing as a management option. Thus, CBE board initiated a set of studies to identify the possible areas of outsourcing for core processes and support processes .Based on this in 2009 consultants with team members of the CBE conduct a study and attempted to provide a more detailed analysis about which activity to or not to outsourced, what tasks are to be outsourced. Among these janitorial, messenger and security services were identified as services to be outsourced in commercial bank of Ethiopia (Ibid).

After CBE made decision on the janitorial, messenger and security services to be delivered by the service provider a contract was made with Dejen security and janitorial PLs since 2010.Nex to this in 2013 CBE again made a new agreement that stayed for three years with the current service provider called Commercial Nominees PLC. The recent service level agreement document includes the following points:

- Employees salary, contract price and payment
- Insurance coverage
- Tax and duties

- Condition of Suspension and termination
- Code of conduct and dispute settlement
- Duration of contract
- Commencement of the service

In addition to the above points the service level agreements also mention the obligation of the two parties. From this point of view the service provider should provide the necessary training for employees per a year, supply working materials, provide the list of all employees assigned at the start of the contract and quarterly update the list specifically those have been added as well as removed employees from each CBE site. On the other hand assigning supervisor that communicate with the service provider behalf of CBE, collect the service user organ's feedback and communicate to the service provider for further improvement, conduct performance evaluation in every three month and made payment for the service provider as per its performance are the some of the responsibilities of the bank.

By considering the above fact, the study assesses challenges and benefits of outsourcing practices in commercial bank of Ethiopia.

1.2 Statement of the Problem

Outsourcing is one of the most prevalent trends in today's world business environment even though it is a new practice in Ethiopia. Organizations have different reasons for outsourcing the parts of functions in their operation. In many cases, the aim is to outsource non-core activities in order to gain competitive advantages by transferring such functions to specialist companies with the required capabilities and the necessary experience thereby allowing time and space for the company to plan in the long term. Even though outsourcing results several benefits for organization it has also problems or risks if the process is not managed in the proper way.

Outsourcing represents a commercial relationship between two separate entities which may have different norms in terms of speed, style, decision making and organizational structure. In relation to this commercial bank of Ethiopia face with different challenges. The first challenge is a problem of quality service. Even though CBE change its service provider from Djen janitorial

and security PLC to Commercial Nominees PLC, still the bank face a challenge of quality service in connection with the three outsourced services. The second problem is that outsourcing intangible products like security service, courier service and janitorial service are not as such transparent, and it is difficult to measure the service like that of tangible products. As the result commercial bank of Ethiopia can't able to properly measure the real cost of the outsourced service delivered by the service provider and a difficulty of controlling service quality as per the prior service level agreement. Thirdly, due to lack of experience in the outsourcer as well as in the supplier side, working materials and the services to be delivered have not been clearly defined and specified in the formal agreement. In connection with this, among the necessary materials the service provider (Commercial Nominees PLC) only supplied detergent and employee's uniform. On the other side the gun and bullet were supplied by CBE. But this is not properly stated in their formal agreement even though the two parties were supplied some of the materials used as an input for the outsourced services. On top of this materials like checking machine for security guards were not supplied by any of the two parties for the last three years. This leads to frustration on both sides, since the outsourcer feels that the supplier is not providing a sufficient service level, while the supplier feels that the outsourcer demanding more than the formal agreement.

So, organizations should give a great attention to maximize the benefit of outsourcing and overtake such problems arise with related to it through proper bidding, legal base contracting, regular follow up, periodic performance evaluation and creating good relation with service provider.

In spite of the fact that outsourcing became very popular topic in today business environment, commercial bank of Ethiopia is one of the organizations that outsourced the three non core functions (security, messengers and janitorial service) since 2010. By considering the above issues the researcher tried to examine the challenges and prospects of outsourcing by raising research questions as stated below and providing answer to these questions.

1.3 Research Question

- What are the reasons for outsourcing the services?
- What benefits are gained after outsourcing the services?

- What is employee's attitude towards the level of outsourced services?
- What are the challenges or problems faced after outsourcing the services?
- What should be done to overcome problems or challenges and to maximize the prospects of outsourcing?

1.4 Objective of the Study

1.4.1 General Objective

The general objective of the research is to assess the challenges and prospects of outsourcing practices in the commercial bank of Ethiopia.

1.4.2 Specific Objectives

The specific objectives of the research are to:

- Assess the reasons for outsourcing the services.
- Identify the benefits gained after outsourcing the services.
- Identify employee's attitude towards the level of outsourced services.
- Identify challenges and problems faced after outsourcing the services.
- Offer the possible solutions that help to overcome challenges or problems and maximize the prospects of outsourcing.

1.5 Significant of the Study

The concept of outsourcing was exercised for the last decades in different countries and companies but, it is a new concept and practice in Ethiopia. Due to the different reasons organizations decide which services should be outsourced or not outsourced. Based on their decisions, organizations may get benefits or face challenges. So study examines such problems in outsourcing, identify the benefits and challenges after outsourcing, and reasons for outsourcing. Based on these it is expected that the findings and recommendations are useful to commercial bank of Ethiopia and other similar business organizations, particularly for those considering outsourcing or broadening the range of their services. In addition, the study creates an opportunity for the researcher to gain more knowledge in the practices of outsourcing. Moreover the study will serve as a reference for other researchers who conduct further research in related issues.

1.6 Scope of the Study

The scope of the study was limited to outsourced services in commercial bank of Ethiopia particularly branches found in west Addis Ababa District with a special attention for security, courier services, and janitorial services.

1.7 Limitation of the Study

Even though commercial bank of Ethiopia is the oldest and largest bank in Ethiopia which has over eight hundred branches throughout all part of the country, due to time constraint and to make the data manageable the study is limited to branches found under West Addis Ababa District. In addition, the study also focuses on only the three outsourced services: security service, courier service, and janitorial service. More over the research did not include data collected from CBE external customers. These make the research result may not fully show the extent of outsourcing practice in commercial bank of Ethiopia.

1.8 Organization of the Paper

The paper is organized in to five chapters each dealing with different ideas for one common purpose. In chapter one; background of the study, statement of the problem, objective of the study both general and specific objectives, research questions, significance of the study, scope of the study and limitation of the study were included.

In chapter two, reviews of theoretical and empirical literatures were included to support the study. In chapter three; research design and methodology was briefly stated including the research type, population of the study, sampling method, sample size, data collection instrument, pilot test and method of data analysis were included. In chapter four a brief analyses and interpretation of data were supported by empirical or theoretical literatures. Under chapter five general summary of the paper, final conclusion and possible recommendations were included. Questionnaires, interview question and other document used in the study are annexed in the appendices.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Definition and Terms of outsourcing

The term of outsourcing is defined in different ways by different scholars based on the location and type of function outsourced. The following are some of the definitions and terms of outsourcing explained by scholars.

Out sourcing is *“the act of obtaining services from an external source”* (Brown and Wilson, 2005).

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

Business process outsourcing is *“the movement of business processes from inside the organization to an external service provider”* (Duening and Click, 2005).

According to Aran and Patel (2005) Business outsourcing is *“the contractual service of transferring one or more businesses process to a third party provider, where the latter takes over the management, ongoing support and infrastructure of the entire application or process”*

Among the definitions of the above different authors, it is clearly found that they come to a common background in which they agree that outsourcing could be summarized in the functions of make or buy decisions, transfer the job to a third party, and organizational focus on core business activities while handling non core activities to others who are specialist in order to increase job efficiency and cost reduction.

Duening and Click (2005) again divide business process outsourcing in to three types (offshore, nearshore and onshore) which are differ both in location and the function served.

A. Offshore:

Offshore outsourcing is “the *transfer of the responsibility for delivering service to provide who delivers these services from continent different from where the recipients operate*” (Buelen et al, 2006).

Offshoring is the outsourcing of service activities to a lower cost organization in a foreign country and it allows the outsourcer companies to compete on a global basis for lower costs and better efficiencies .On the contrary offshoring leads to loss of local jobs due to relocation of the business unit, lose of visibility and control over a potentially extended supply chain, difficulty with business operations due to time differences, difficulties in transferring knowledge, and misunderstandings due to language or culture(Alex Bank,2010).

B. Nearshore:

As Meresea (2007) cited from <http://www.Value basedmanagement.net> near shoring is defined as “outsourcing *within nearby territory, accessible by short travel or telephone in the same or neighboring time zone.*”

Nearshoring is outsourcing activities to other neighboring country having the same time zone and short distance that can be accessible in simple way. Nearer countries are likely to have common cultural values and similar mindset. The time difference and the cost to travel are relatively reduced. As the result his type of outsourcing overcomes some of the difficulties cited in offshoring (Alex Bank, 2010).

C. Onshore:

Onshoring is also called domestic outsourcing. As the name indicates it refers to assigning some services to be provided by some organizations outside a company but within the same country. This type of outsourcing helps organization to achieve lower operation costs and benefits from having local employees which are not obtained from other type of outsourcing (Alex Bank, 2010).

As we see from the above definitions the three type of outsourcing are differ in location of vendor to whom the functions are outsourced and their benefits provide to the outsourcer organization. Both offshore and nearshore outsourcing made in different countries where as onshore is realized in home country with related to the place of the outsourcer organization. In relation to this commercial bank of Ethiopia outsourced its service to local company called commercial nominees PLC. Thus, the study of this research is focus on the third type of outsourcing-onshoring. Nutshell as definitions given by different authors, the concept of all type of outsourcing could be summarized in the functions of make decisions to transfer the job to a third party, and organization focus on core activities by handling over non core activities to others who are specialist in order to increase job efficiency , cost reduction , service quality, etc.

2.2 Levels of outsourcing

The concept of outsourcing can be approached in a number of different ways with each has its own characteristics. Brown and Wilson (2005:21-23) classified levels of outsourcing in to three: Tactical, strategic and transformational. All levels are still being used and in principle it can be run simultaneously for different purposes. However, which level of outsourcing best to use for an organization is depends on that organization's individual situation and needs. When organization realized new benefits and opportunities it is also possible for a firm to move from one level of outsourcing to another level.

2.2.1 Tactical outsourcing

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

outsourcing is specifically constructing the right contract and, subsequently holding the vendor to the contract when the managers formed successful tactical relationships .relieve

2.2.2 Strategic outsourcing

This approach to outsourcing is more broad and fundamental. It involves the whole business strategy of an organization and allows management to take a step back and focus on the big picture of operations. Strategic outsourcing creates an opportunity to redefine the company's efforts with regards to the products and services offered and to focus on what it does best and where it has its competitive advantages. Thus, the company can concentrate on its core business and outsource parts or all of the rest. The service provider will often help assist the organization in developing its business and through its services in part be co-responsible for the commercial success of the company. Over a time, as business sought greater value from outsourcing relationship, the goal of this relationship changed. Strategic outsourcing relationships is about building long term value, and aimed at achieving better return on investment and accelerate the growth of the two parties. In strategic outsourcing concept organizations are engaged to work with a small number of best in class integrated service providers instead of working with a large number of vendors to get the job done for mutual benefit.

2.2.3 Transformational outsourcing

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

Transformational outsourcing is the third stage which organizations use it for the purpose of redefining their business. To survive economically today, organizations must transform themselves and their market in an over more daunting challenges to redefine the business world

before it is redefines them. To that end outsourcing has emerged as a single most powerful tool available to executives seeking this level of business change. In transformational outsourcing the service providers are not only viewed as tools for becoming more efficient or better focused rather they are seen as powerful forces for change.

2.3 Reasons for outsourcing

Outsourcing is not an end by itself. Its successful adoption involves different concerned parties in making important decisions about the business they are in and the best mechanism for delivering their services to the customers. Whether organization outsource for the first time or as a renewal exercise, the initial step is to determine the primary reasons for the outsourcing (Choi, 2008). A company hires the services of the external party due to several reasons such as reduction in cost, trained employees, shortage of staff or equipments, better technology, best service quality, able to learn new things, contractors have better reputation, to develop better relationship with other organizations, provides flexibility as organizations focus on other important functions etc (Ashrefa, et al, 2010).

As survey conducted by Miller (cited in Sriwongwana, 2009), 86 percent of respondents, including top executives, said that introducing outsourcing into their organizations could increase their overall business outcomes in many areas. Moreover, this research identified that there are many reasons to outsource; including that 59 percent of respondents wanted to concentrate on their core business activities; 36 percent of respondents wanted to outsource to more quickly attain business goals; 32 percent of respondents wanted to focus on product innovations; 28 percent of respondents want to focus on market changes; and, 22 percent of respondents go this route expecting to boost revenues and profits.

Even though each organization have their own specific reasons to outsource its function to suppliers, according to different scholars the following are the main reason for organizations to make a decision for the outsourcing.

A. Focus on strategy: accompany manager typically spent the bulk of each day handling the detailed operation their functional areas. By outsourcing this function accompany can give the

tactical part of each manager's job to supplier which allows the management team to spend more time on strategic issues as market positioning and product development (Bragg, 1998)

B. Focus on core functions: A company has very small number of functions that are keys to survival. To give more attention to this core functions company distribute non core functions among a group of suppliers who are capable of performing them well enough that company management will not have bother any of the details associated running them (Bragg, 1998). Successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission (Choi, 2008).

On the other side Bragg (1998) notice that, sometimes the company may outsource those functions that are core function at the moment, but which are expected to become less important in the near future due to change in the nature of the business. Brown and Wilson (2005) also support this point; the company would keep only those core functions in house when the staff can do better than the supplier. In addition, a company could even outsource a function that is considered as a key to survival if it can find a supplier that can perform the function better. In sum a company need to keep its functions in house if the functions are core functions as well as there is no supplier that can do it better than the company itself.

C. Avoid major investment: Due to lack of investment some functions in a company are not as efficient as it could be. If the company keeps this function in-house, it is forced to make a large investment for the function in order to modernize it. By outsourcing the function, such function the company permanently avoid having to make this investment (Bragg, 1998). The value of using outside provider is clear: better service for less investment of the capital and management time (Wilson and Brown, 2005).

D. Assist fast growth situation: If the company is rapidly acquiring market share, the management team will be stretched to its limit building the company up and to handle the

volume of the business. In such situation the management team will desperately need additional help in running the company by focusing on a small number of core activities (Bragg, 1998).

E. Improve flexibility: According to Domberger (1998) flexibility is the ability to adjust the scale and the scope of production upward or downwards at lowest cost and rapid rate when a function experiences extremely large swing in the volume of work it handles, it may easier to eliminate the fixed cost of an internal staff and move the function to suppliers who will only paid for the actual work done. This converts the fixed cost into a variable cost –the price of the supplier’s will fluctuate directly with in the transaction volume it handles (Bragg, 1998).

In addition to the above point Choi (2008) justify flexibility in another way; maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. On the contrary, organizations may only be able to maintain resources at a level just sufficient to meet normal demand, which is lead to poorer customer service at peak periods. In such situation outsourcing of functions that are subject to peaks and troughs in usage can provide organization with the flexibility to respond rapidly to changing demands.

F. Reduce cost: outsourcing is not all about reducing cost. However, a company may emphasize cost saving of a variety of reason, such as being a poor financial position, plan to increase profit. A supplier can lower costs by centralizing the work of several companies at one location, purchase its input in large volume. So, the company can reduce its cost indirectly by transferring its function to this type of suppliers (Brown and Wilson, 2005)

F. Access to skills: Organization may faced with a shortage of skilled and experienced staff brought about by the change in the business operation setting , retirements, resignations, or recruitment problems. Existing staff may not always have the necessary skills to keep pace with rapidly evolving change and technology. When an organization is contemplating providing new services, outsourcing can ease the process of building the skills and resources required to respond to these new initiatives. In some cases, outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. On top of

this organizations also benefit from having their staff work with the service provider's specialists (Choi, 2008).

G. *To acquire better management:* An in-house function which is no longer effective or efficient due to poor management can be outsourced to a supplier who will give access to the best and most experienced experts in the functional areas(Bragg, 1998).

H. *Improving service quality:* Functions noncore for the outsourcer is core for the vendors, and the vendor focus on reengineering and running the process efficiently. Since it is a core activity for the vendor, it would strive to bring about improvements in the outsourced process and deliver superior quality standard than the company itself (Aran and Patel, 2005).

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

Table 2.1 Outsourcing Motives

| Reference | Area | Main Motives |
|------------------------------------|--|--|
| Kakabadse and kakabadse 2002 | US and Europe | <ol style="list-style-type: none"> 1)cost control 2)Aim to achieve best practices 3)Improve service quality 4)Focus on core competence 5)Enhance capability to develop new product /service 6)Access anew technology |
| Landis,Mishra and porrello 2005 | US | <ol style="list-style-type: none"> 1)cost saving 2)Acquiring best practices/quality/ innovation 3)Flexibility 4)Focus on core capabilities 5)Access to higher-caliber labor 6)Transfer risk to vender 7)Lack of expertise |
| Quelin and Duhamel 2003 | Europe | <ol style="list-style-type: none"> 1)Lower operational cost 2) Focus on core activities 3)Gain flexibility |
| Swoyer 2004 | US | <ol style="list-style-type: none"> 1)Reduce or control cost 2)Gain access to resource unavailable internally 4)Free up internal resource 5)Access to project 6)Improve business focus 7)Reduce time to market 8)Access company reorganization/transformation 9)Gain access to management expertise unavailable |
| Trestle Group Research Report 2004 | Global (16 countries from which 70% in Europe) | <ol style="list-style-type: none"> 1)Reduce cost 2) Gain access resource unavailable internally 3)Access to flexible work force 4)Internal reorganization 5)Improve business focus 6)Reduce time to market 7)Free up internal resource |

Source: Hatonen (2008, p. 4)

As we observe from the above table the research conducted by different researchers in different time and in different countries almost all result confirms that the main motives of outsourcing are

costs saving, to focus on core competence, improves flexibility and access resources unavailable internally. But among these cost saving is the primary reasons for outsourcing.

Another empirical evidence stated blow in Table 2.2, show the reason for outsourcing in the security and janitorial services.

Table 2.2 Reason for outsourcing security and janitorial service

| No | Justification for making decision | Rank | |
|----|--|------------------|--------------------|
| | | security service | Janitorial service |
| 1 | Cost saving | 2 | 3 |
| 2 | Allow more focus on core business | 1 | 1 |
| 3 | Improve service level | 3 | 2 |
| 4 | Reduce risk | 4 | 9 |
| 5 | Control Budget | 9 | 8 |
| 6 | Lower ongoing investment required in internal infrastructure | 6 | 7 |
| 7 | To access skill | 10 | 10 |
| 8 | Lack of internal expertise/ Increase flexibility | 5 | 4 |
| 9 | Access to new technology | 7 | 5 |
| 10 | Turn fixed cost to variable cost | 8 | 5 |

Source: Meresea M (2007, p. 47 and 48)

According to Meresa's research (2007), reasons for out sourcing security service, respondents granted great weight to allowing more focus on core business, cost savings and improving service level were ranked 1, 2 and 3 respectively. This result is parallel with the result found in reasons for outsourcing janitorial service. However, for security service cost savings takes the second position whereas janitorial service improving service level takes the second position. There for lack of internal expertise, control of budget, turning fixed costs into variable costs, acquiring innovative ideas and lowering ongoing investment requirement in internal infrastructure, were ranked 10, 9, 8, 7 and 6 respectively and considered as less important for the

outsourcing decision. However, reducing risk which was rated less important for janitorial service but it was considered as important for security service outsourcing decision. In Sum based on his research result focus on core business, cost saving and improving service quality are the three top reasons for outsourcing the janitorial and security services.

2.4 The Cost and Benefit of Outsourcing

Outsourcing has its own advantage/benefit/and disadvantage/cost/.But the balance between the two is depends on the ability of the service receiver to analyze the function and the commitment of the service provider to provide the service based on prior agreement. In addition to these there are also another cost and benefit of outsourcing beyond the activities of the two parties which is related to the nature of outsourcing itself. In relation to this let us see some points sported by different writers.

2.4.1 Cost of outsourcing

A. Cost of Transaction

In outsourcing initially there are costs of searching vendors. With regard to this, market participants don't have perfect information and perfect picture concerning their counterpart on the opposite side of the transaction: information about buyers, their preferences, and their budget must be acquired. Dickstein and Flast (2009) the service provider or outsourcer may have a lack of management experience, due to this start-up, transition and management cost will increase. Similarly knowledge about the potential sellers is scare. Particularly this is true for service outsourcing which is evaluated on the bases of past performance as judged by clients (Domberger, 1998).

Searching and selecting the service provider during outsourcing involves implicit and explicit cost. Some of the explicit costs are: writing specification, drafting contracts, consulting relevant end users, advertizing invitation to bid, evaluating the bid and closing the negotiations with the winning bidder. All these need considerable senior management time. Estimates of such transaction cost vary but the can be as high as five percent of the contract values (Domberger, 1998). On the other hand implicit costs are exists because of not possible to foresee all future contingencies. Dickstein and Flast (2009) service debasement or deterioration due to

inexperience, task complexity, excessive numbers of customers are some of the cause of implicit cost. Depending on the nature of outsourced service or product involved, there may need revise the specification, increase or decrease the quantity stipulated in the contract, adjust the quality upward or dawn ward or review some other dimension. Such activities results cost escalation. In addition to cost increment, this kind of negotiation consumes valuable management time and difficult to resolve (Domberger, 1998).

B. Cost of Monitoring

As Domberger (1998), the ultimate goal of service provider is to make profit whereas the client seeks to obtain the best value for money from the contract. The interest of these two parties obviously diverges. The service provider stands to benefit from shrinking resources which results an incentive to reduce efforts, providing such action is not detected by the client or outsourcer. In order to minimize this incentive the client need to intensify the monitoring of the service provider performance. This makes the monitoring of contractors is inherently more costly than monitoring in-house service provider.

C. Loss of Control

Another important cost of outsourcing involves the perceived loss of control. Many managers adhere to the view that ownership means control. In outsourcing if complementary assets are independently owned, cost will higher and efficiency lower than if they are held under single ownership. According to Domberger (1998), this indicates loss of control through fragmented ownership implies higher cost or inefficiency. Alex Bank (2010) in addition to this due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

The criticism of outsourcing does not end with loss of control, transaction cost and monitoring cost. It also negatively affects the outsourcer organizations by resulting loss of in-house skills, loss of corporate memory and loss of innovative capacity (Domberger, 1998). According to Dickstein and Flast (2009) loss of organizational competency happen when the services are more core than context, or when there are interdependence between outsourced and insourced services.

This is most keenly felt at the end of a contract, when the outsourcer realizes that they no longer perform the activities that were outsourced.

In addition to the points expressed above by different authors Wilson and Brown (2005) mentioned that no powerful tool is without challenges, and the same is true for outsourcing. With this regard, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing challenges.

The research conducted by Trestle group (2004) strength the pointes mentioned above by Wilson and Brown in relation to challenges of outsourcing as shown below in table 2.3.

Table 2.3 Major challenges in outsourcing

| No | Challenges | Rate in % |
|----|-------------------------------|-----------|
| 1 | Other | 3 |
| 2 | Deciding what to outsource | 5 |
| 3 | Change management | 13 |
| 4 | Defining SLA | 23 |
| 5 | Vendor selection | 25 |
| 6 | Managing process/Relationship | 31 |

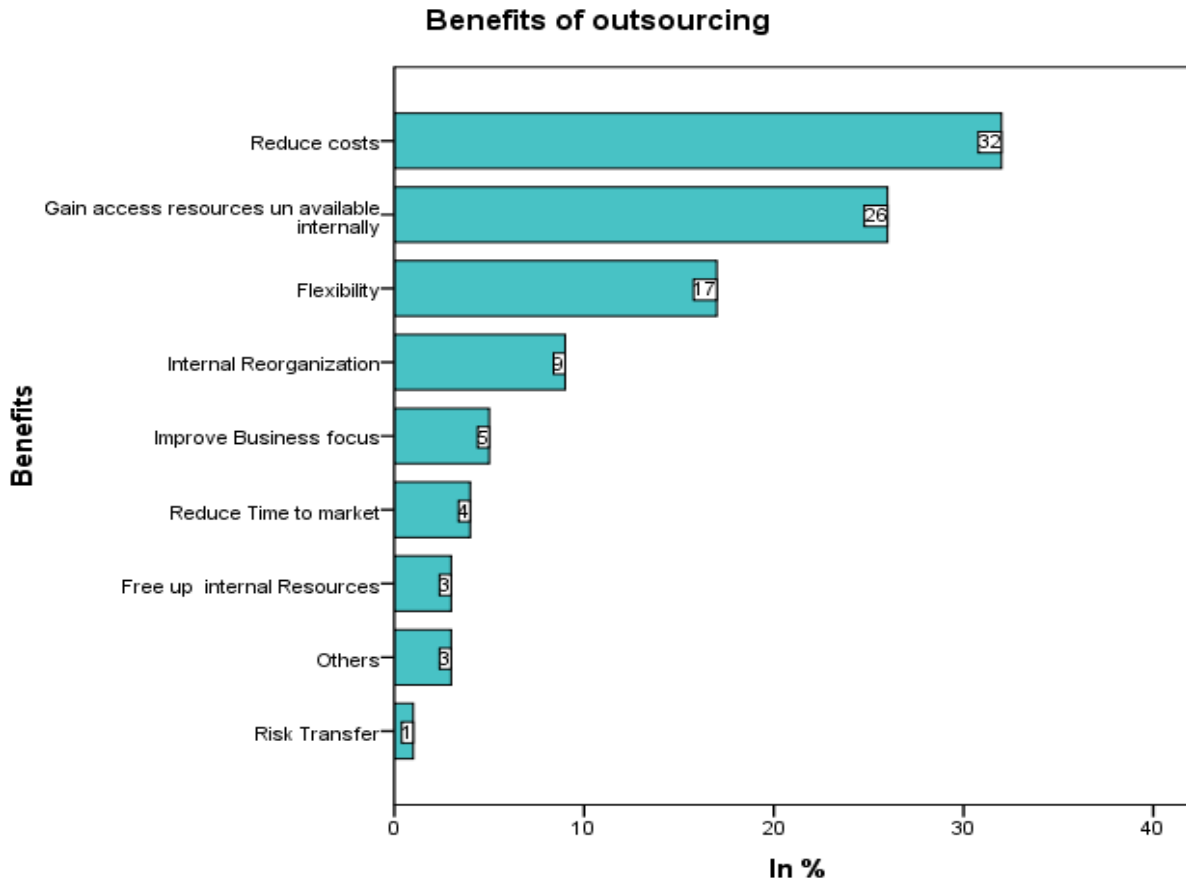
Source: Trestle group (cited in Ashirefa, et al, 2010, P.14)

According to Trestle group (cited in Ashirefa, et al, 2010) managing relationship, vendor selection and defining SLA is the first, second and third major challenges of outsourcing as stated above in table 2.3

2.4.2 Benefits of outsourcing

Now in these days there is wide scope of outsourcing. In the market there are several contractors are available who are ready to provide their best services with least cost. Organizations hire their services in order to enjoy different benefits. The benefit of outsourcing is emanating from the rationale for outsourcing. Due to this most of the reasons for outsourcing are also the benefit of outsourcing. Domberger (1998) categorized the benefit of outsourcing in to four: specialization, flexibility, cost saving and market discipline.

Figure 2.1 Benefits of outsourcing



Source: Ashirefa ...etal(2010 , P.13) cited from Trestle group (2004)

According to Ashirefa, et al (2010) cited from Trestle group research conducted in 2004, cost reduction, gain access resources unavailable internally and flexibility are considered as the major benefits of outsourcing accordingly.

2.4.3 Cost and benefit of outsourcing Security Guards

The primary disadvantage of outsourcing security function is its high price .The supplier charge a significant premium over the amount paid to its security employees, which includes its bonding, training, and administration fees. The outsourcer must also incur if it keeps the function in-house, but not the profit and the sales overhead costs that the supplier charge. Supplier sometimes gets around the high price problem by paying a very low rate to its security employees, which results in outsourcers being given a very junior security force who didn't have

enough skill and experience about the work .In addition to these, same times the reliability of security staff can be a problem, since they are guarding valuable assets, and there is no one see them if they were to steal those assets. As Bragg (1998) the only way for a company can reduce its security costs by outsourcing if its internal security staff is very well paid.

As stated above outsourcing security function has its own cost (disadvantage), it has also several benefits for the outsourcer. The first benefit is a company has no longer to deal with the hiring, firing and other personnel issues because of the supplier take care of all these administration details. This is a particular advantage in the security area .The second one is many supplier offer security training to their staffs, which gives a company the assurance of consistent, reliable and quality service wherever the supplier does business. Thirdly, outsourcing security eliminates personnel related paper work while improving the reliability and training of the security staff (Bragg, 1998).

2.4.4 Cost and Benefit of outsourcing the Janitorial function

The janitorial function is one of the most commonly outsourced functions but many companies do not control the outsourced janitorial function very well, nor regularly examine the performance of their supplier. With related to this function there are a verity of advantages and disadvantages.

As Bragg (1998), the primary disadvantage of outsourcing the janitorial service is that there will be still 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 supplier's janitors. Thus, the company may still need an in house janitor even after the function has been outsourced.

On the contrary according to Bragg (1998) the major advantage of outsourcing the janitorial function is related to accounting problem which is called step costing. Within an in house janitorial staff, a new janitor must be hired once there is a moderate cost increased in the required service that person may not be fully utilize until the facility size has continued to increase for same time. This results an initial inefficiency that may not be corrected for same time, depends on the company facility's growth rate. But, when this function is outsourced, the company only

pays an incremental amount of extra footage that is added to the scope of the janitorial service contract.

Table 2.4 Functional and Financial Pros and cons of outsourcing

| Pros of outsourcing | Cons of outsourcing |
|--|--|
| Functional | |
| Can be leverage to improved operating efficiency, and migration to better and more efficient methods can be facilitated. | Los of control over day to day decision making. |
| Enable changes in corporate culture and process. | Incurs risk of becoming tied to one vender or technology, making responsiveness to change more difficult |
| Allow in house personnel focus on strategic planning and new area of development or core process. | Outsourcing agreement must be managed effectively by knowledgeable staff to ensure vendor's ability to deliver the services and products. Identification core processed may change over a time. |
| Provide access to expert knowledge in old and new technology areas. | Ensure knowledge transfer so that the reduction staff skill and staff knowledge of need /systems are minimized. |
| Can be leverage respond to respond quickly to legislative mandates, new technologies new business needs. | There are high exit barriers. once a contract is signed, it is difficult to back out in the event of problem |
| Financial | |
| Offer cost saving on equipment and staffing vendors' through economic of scale. | Danger of becoming tied to obsolete technology so vendors can achieve economic of scale. |
| Enable smoother cash flow, as predetermined amount go to the vendor to buy material and equipment. | Looking in to one vendor without the ability to take the program in-house or switch to another vender will cause price increases when the contract is renewed. |
| Offer access to technology without capital investment. | A cost of outsourcing agreement is depends upon contract terms and conditions for changes. Cost may spiral quickly. |
| Save management time and money through reduced need to oversee day to day operations. | Cost of the company in terms of staff time for contract management may be higher than anticipated. |

Source: Brown and Wilson (2005, P.54)

2.5 Outsourcing process

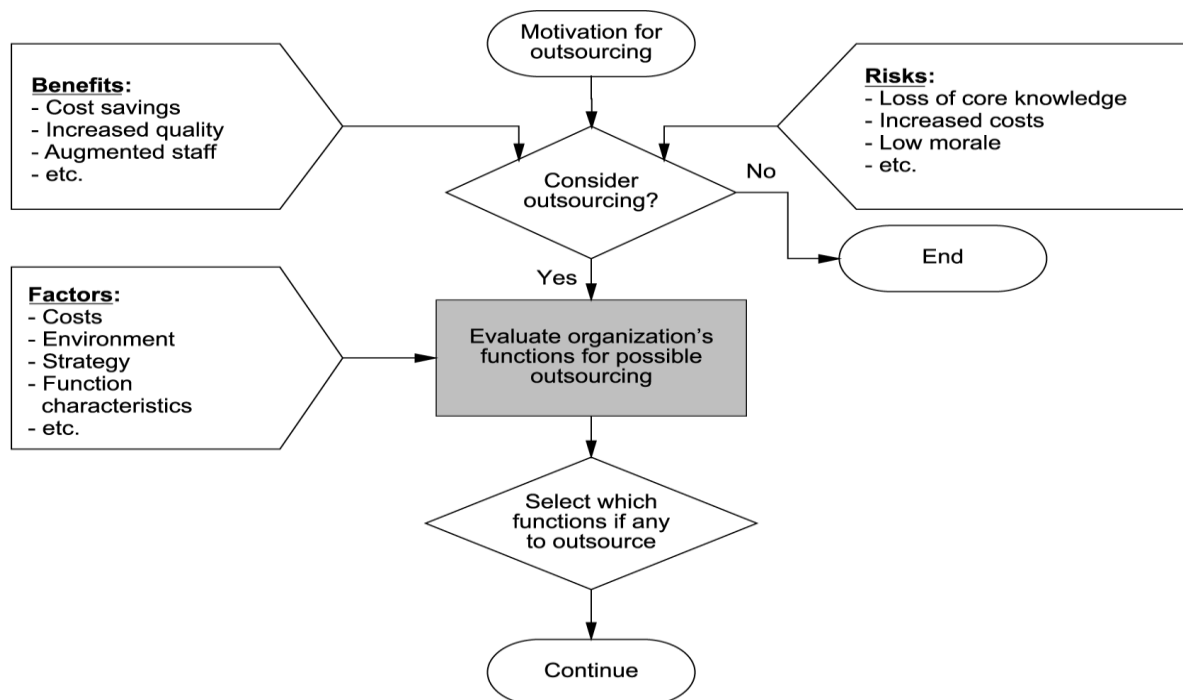
According to Handfield's (2006) there are four main aspects to a typical outsourcing program:

- a. Program Initiation
- b. Service Implementation
- c. Final Agreement
- d. Program closure

A. Program Initiation

At the start of any outsourcing program, there are a variety of ideas and opinions about the purpose and scope of the program, what the final result of the program will be, and how the program will be carried out. The program initiation stage is concerned with taking these ideas and intentions and documenting them to form the basis of a draft contract Handfield's (2006). The first point in the initiation stage is identifying and making a decision which function should be outsourced. The person within a company who makes the decision to outsource is highly depending on the type of functions. Some functions can be outsourced by the decision of lower level managers, but for major outsourcing decisions that involve very large layoff or cost saving, it is even possible a company's board of director give a vote on the issue. In short all the decision of outsourcing functions should be made by top management except the most insignificant functions (Bragg, 1998)

Figure 2.2: Outsourcing Decision Framework



Source: Kremoc T, Rom W. and Tukul O. (2006) Vol.11 Number 6, p. 268

B. Service Implementation

Service implementation covers the activities required to take these ideas and develop them into a formal planned outsourcing program and to make the transition to the outsourced service. Particularly Handfield's (2006) mentioned these activities include:

- Defining the transition project
- Transferring staff
- Defining the Service Level Agreement (SLA)
- Defining service reporting
- Implementing and handing over the service
- Implementing service management procedures

Service level agreements are formal documents that outline the institution's predetermined requirements for the service and establish incentives to meet, or penalties for failure to meet the requirements. As federal financial institutions examination council (2004), financial organization should link SLAs to provisions in the contract regarding incentives, penalties, and contract cancellation in order to protect themselves against service provider performance failures. Management should develop SLAs by first identifying the significant elements of the service. Once it has identified the elements, management should devise ways to measure the performance of those elements objectively. Finally, institutions should determine the frequency of the measurements and an acceptable range of results to determine when a service provider violates the SLA benchmarks. Although the specific performance standards may vary with the nature of the service delivered, management should consider SLAs to address issues such as availability and timeliness of services, confidentiality and integrity, change control, security standard compliance and business continuity compliance (FFIC, 2004).

According to Brown and Wilson (2005), effective service level agreements (SLA) identify the expected result and the measures by which both parties can assess performance. Because of its complexity and scope outsourcing, effective service level agreement (SLA) frequently requires sophisticated legal and technical expertise. Most of the time outsourcing agreement failure occurs due to both outsourcer and service provider did not express how to evaluate the progress made against a specific target. To minimize such problems a practical outsourcing service level

agreement need to begins by describing standard requirements such as start and end dates for the service, the schedule for reviewing performance and documentation to be used in measuring the service. Duening and Click (2005) suggest, service level must be intimately tied to price in order to properly align the financial interest of the vender and the business goal of the buyer. These two authors also conclude as quality is generally a better service level measure than quantity especially in fixed price scenarios.

During the hand-over phase it is imperative that continuity of service is maintained at all times, that there is no reduction in the quality of the delivery and that timescales and deadlines are not compromised (Handfield's, 2006).

C. Final Agreement

The draft contract produced at the initiation stage is generally amended during negotiations and the final Contract is produced on completion of the negotiation cycle.

D. Program Closure

In order to gain maximum benefit, the program should go through a formal close down (Handfield's, 2006). According to Bragg (1998) there are a variety of reasons why an outsourcing relationship must be stopped. The first reason is the outsourcer only has a short term need for the service being provided, and the service provider offered the service in the right quality and cost as expected as in service level of agreement (SLA). This is the friendly situation where the outsourcer takes the service away from a supplier. The second reason is subject to more disputes when management does not feel a supplier providing the level of service that was promised as the start of the relationship. In such case, if there is no clear set of performance that both parties have agreed upon in advance, then the termination of the relationship may be rancorous in the extreme, and may involve litigation. Instead, this decision should be made based on performance measurement that have been verified and approved by the outsourcer and supplier. The third reason is that senior management may have to make decision to cancel an outsourcing contract based on the allegation that the cost of the agreement is higher than expected. However, management should establish a baseline cost for the outsourced service

before it was give to a supplier and compare this baseline cost to the current cost of using supplier.

As Bragg (1998), once the decision has made to cancel an outsourcing contract, the decision should be made to either give the service to another supplier or to bring the function back in-house. One strong reason for bringing a function in- house is the experience of outsourcer with supplier was so bad in terms of excessive cost, poor service or relationship. But if the management feels that there are other suppliers already they knows and can able to do better job, then the function is more likely to be moved to another supplier. Domberger (1998) also notice that outsourcer can directly negotiate with potential providers without requiring the formal bid or tender when the purchaser believes that it has adequate market information with which to negotiate an efficient contractual solution. Handfield's (2006), staff and companies alike need to accept the new situation and move forward. However, there will be a lot of information generated during the life of the contract, and this will have been stored with varying degrees of formality by the team members. The information needs to be formally filed away for future reference.

2.6 Conclusion

To sum up issues discussed in this chapter the researcher tries to summarize the main points by adding his own view as stated bellow.

Outsourcing is a transfer of core or none core activities to other organization that can able to perform the function better than the outsourcer. Based on the location of the service provider the type of outsourcing can be classified in to three: offshore, nearshore and onshore. Offshore outsourcing is transfer of functions to an organization found in different continent relative to the outsourcer. Nearshore is outsourcing of activities to an organization found in the same region with the service receiver where as onshore outsourcing is a type of outsourcing both the outsourcer and the service provider found in the same country like CBE and CN.

Organizations have their own reason to make a decision for some of the functions to be delivered by external bodies. The main reasons are to focus on core functions, improve service quality,

minimize cost, and to assist the fast growth situation of an organization. Outsourcing helps to realize these benefits for the outsourcer after the responsibility of managing the day-to-day operations and administrative activities is transferred to the service provider. Despite these advantages, outsourcing may result risks such as loss of direct control, cost escalation, and quality deterioration. But in my opinion the disadvantage of outsourcing is not as such strong in the case of local (onshore) outsourcing like that of nearshore and offshore type of outsourcing. This is because of, in onshore outsourcing both the service provider and the service receiver are found in the same country which have similar culture, environment and working hours that help to minimize problems emanate from organizations exist in different countries. On top of this the outsourcer can able to control the quality of the service delivered by the service provider and take a corrective measure on time if there is a deviation of supplier performance with related to the prior service level agreement made between the two parties.

As outsourcing is a business made between two parties having different goals, the benefit or drawback is depends on both the service provider and the outsourcer. The goal of the service provider is to maximize its profit were as the outsourcer need quality service with a minimum cost. This may create conflict of interest between them. However, organizations can minimize such conflict by selecting the right service provider through proper bidding, legal based contract and having a friendly relationship with the service provider. Thus, outsourcing is not a onetime activity rather it is a continuous process which needs a regular close monitoring and evaluation of the performance of the service provider from the initiation stage to program closure.

Generally, although outsourcing is a new practice in Ethiopia, from the experience of foreign countries and some local organizations, if it is implemented and managed in the right way the benefit of outsourcing is outweigh over its problem. As the result, the researcher believed that governmental organizations as well as private organizations need to take outsourcing as one of their management tool and outsource their non core functions to those organizations specialize in particular activities in order to achieve the desired goal and objectives. But outsourcing by itself is not good or bad what matter is the willingness and commitment of the two parties to exert their maximum effort as a partner to realize the result that stated in the service level agreement.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Type of Research

The intention of the research is to describe the existing situations related to outsourced services. In order to achieve this objective the researcher used a descriptive type of research. The reason for selected descriptive type is that the researcher has no control the variables rather he only report what is happened in the area where the research is conducted. According to Kothari (1990) the major purpose of descriptive research is to describe the state of affairs as it exists at present.

3.2 Population of the Study

The population of the study includes CBE staffs, and manager of the service provider, employees of service provider working in CBE (i.e. security guards, janitors and messengers) who were found in 55 branches under west Addis Ababa district and employees in the outsourced administration office. The total population of the study was 2138. Among these 1337 are CBE staffs (1281 employees and 56 managers), 1 manager of service provider, 800 outsourced service employees (552 security guards, 131 janitors and the remaining 117 were messengers).

3.3 Sampling Method

The researcher applied both probability sampling (simple random sampling) and non probability sampling (purposive or judgmental sampling) techniques by stratifying the population into three groups: CBE employees, managers and non staff employees (security guards, janitors and messengers). Stratifying the population allowed the researcher to increase the accuracy of the research by creating more homogenous groups and taking proportion representative samples from each group. Among these three groups the managers of the service provider and outsourcing administrative office were selected by judgmental sampling technique but sample for other groups were selected by using simple random sampling (lottery method).

3.4 Sample Size

As stated in the scope part section 1.5, the study was conducted in CBE branches found under west Addis Ababa District. To get viable information employees in the outsourcing administrative office are also the part of the study. Based on this 10% of the population which is 128 from CBE Staff, 80 from employee's of the service provider (i.e 13 janitors, 12 messengers and 55 security guards) working in CBE found in 55 branches under west Addis Ababa District taken as a sample for the study according to their proportion. But the researcher selected manager of CBE outsourcing administrative office and HR manager of the service provider purposively. This is because the researcher believed that the managers provided valuable information which cannot be obtained from other respondents. In addition to this the researcher tried to triangulate and keep the validity of the data by collecting information from different concerned bodies (i.e., employees, service provider and service receiver)

3.5 Data collection Instrument

To increase the validity of the study the researcher used both primary and secondary data .The primary data were collected by open ended and close ended questionnaires, and interview which was structured and unstructured type (semi-structured). Questionnaires were used as the main instruments to collect data from CBE employees and outsourced service employees. Closed ended questions were included to shape the information in the way that researcher needs, but if all be open ended the researcher may deviate his idea towards the response of the respondents without touching the objectives. The questionnaire was preferred to other methods of data collection hoping that it provides an opportunity for obtaining reliable and valid information from more number of respondents. Even if semi-structured interview was used concurrently with the design of the questionnaire it is more important to obtain information with regard to issues that required clarification not expected to access using questionnaires. On the other hand the researcher collected secondary data related to expected service user's satisfaction level, performance evolution and mode of payment from review of CBE service level agreement.

3.6 Pilot Test

To increase the clarity of the questions for respondents understanding and to ensure the appropriateness of the questions, before launching the full scale study a pilot test was carried out on 14 respondents. Among these 9 questionnaires were distributed to employees of the outsourced services (janitors, messengers and security guards) and the remaining 5 questionnaires were distributed to CBE employees. Based on the feedback obtained from each group of the respondent same corrections were made on the questionnaires. The items in the questionnaires were grouped in to two parts. The first part contains question items related to respondent's characteristics and the second part comprises of variables related to the study.

3.7 Methods of Data Analysis

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

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATION AND ANALYSIS

This chapter deals with data presentation, interpretation and analysis of the study. It has two main parts: the first part is the back ground information of the respondents, the second part consist of data collected from employees and managers through questionnaires and interview respectively.

For the purpose of this research 208 questionnaires were prepared, and 128 distributed to CBE staff and the remaining 80 were distributed to employees of the service provider working in CBE (janitors, messengers and security guards). Out of these questionnaires 185 were filled and returned. The rest 23 questionnaire were unreturned. Among these unreturned questionnaires 17 for CBE staffs and the remaining 6 for outsourced employees particularly the security guards. In addition to questionnaires the researcher also conducted key informant interview with manager of the outsourcing administrative office in CBE and human resource manager of the service provider (Commercial Nominees PLC). The data collected from CBE employees and employees of outsourced services through questionnaires were presented separately by integrating with data obtained from the two managers through interview as shown the in next section.

Based on Likert-type scale the level of agreement or disagreement is different but for the sake of data interpretation and to draw visible conclusion the researcher added the value of strongly agree with agree and strongly disagree with disagree. Thus, throughout this chapter the data interpretation was made in three scales i.e. agree neutral and disagree.

4.1 Background Information of the Respondents

As shown below in table 4.1, among the respondents 136(73.51%) were male and the remaining 49(26.49%) were female. This shows that the majority of the respondents were male. With regard to age category 39(21.08%) were blow 25years, 88(47%) were between 25 and 35 years, 45(24.32%) of them 36 to 45 years and rest 13(7.03%) of the respondent were above 36 years old. Furthermore the educational level of the respondents form the lowest grade eight

28(15.68%) to the highest level above first degree 6(3.24%) of them. But most of the respondent 86(46.49%) were degree holders.

Table 4.1 Background Information of the Respondents

| Variables | Categories | Frequency | Percentage |
|------------------|-----------------------|------------------|-------------------|
| Sex | Male | 136 | 73.51 |
| | Female | 49 | 26.49 |
| | Total | 185 | 100 |
| Age | Less than 25 years | 39 | 21.08 |
| | 25-35 years | 88 | 47.57 |
| | 36-45 | 45 | 24.32 |
| | Greater than 46 years | 13 | 7.03 |
| | Total | 185 | 100 |
| Education | Grade 8 | 29 | 15.68 |
| | Grade 10/12 | 34 | 18.39 |
| | Certificate | 7 | 3.78 |
| | Diploma | 23 | 12.43 |
| | First Degree | 86 | 46.49 |
| | Above first degree | 6 | 3.24 |
| | Total | 185 | 100 |

Source: survey data

4.2 The Reason for Outsourcing

Table 4.2 Reasons of outsourcing the janitorial, messenger and Security services.
(i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

| NO | Reasons for outsourcing | 5 | 4 | 3 | 2 | 1 | Total |
|----|--|----------------|----------------|----------------|----------------|----------------|---------------|
| 1 | To reduce cost. | 32 (28.83%) | 40 (36.04%) | 11 (9.91%) | 13 (11.71%) | 15 (13.51%) | 111 (100%) |
| 2 | To improve service quality. | 39 (35.14%) | 37 (33.33%) | 14 (12.61%) | 12 (10.81) | 9 (8.11%) | 111 (100%) |
| 3 | To give more focus to core functions of the bank. | 51 (45.95%) | 32 (28.83%) | 18 (16.22%) | 4 (3.60%) | 6 (5.41%) | 111 (100%) |
| 4 | To improve flexibility of the service by the service provider. | 9 (8.11%) | 5 (4.50%) | 22 (19.82%) | 46 (41.44%) | 29 (26.13%) | 111 (100%) |
| 5 | To save manager's time and lead them to focus on strategies of the bank. | 40 (36.04%) | 39 (35.14%) | 17 (15.32%) | 8 (7.21%) | 7 (6.31%) | 111 (100%) |
| 6 | To assist the current fast growth situation of CBE. | 35 31.53% | 30 (27.03%) | 21 (18.92%) | 10 (9.01%) | 15 (13.51%) | 111 (100%) |
| 7 | To access skills not available in CBE. | 16 (14.41%) | 18 (16.22%) | 7 (6.31%) | 22 (19.82) | 48 (43.24%) | 111 (100%) |

Source: Survey data

As table 4.2 shows the majority (64.87%) the respondents replied that the cost reduction is the reason for commercial bank of Ethiopia to make a decision on janitorial, messenger and security services to be delivered by the service providers whereas 23.42% of them said cost reduction was not the motive for CBE and the rest 9.91% of the sample did not justify it. As Brown and Wilson (2005) outsourcing is not all about reducing cost. However, a company may emphasize cost saving of a variety of reason, such as being a poor financial position, plan to increase profit. With

regarding to service quality 68.47% of informants replied that service improvement was another reason, same 18.92%, 12.61% were reject the majorities idea and in between respectively. The response of the mass was parallel with Aran and Patel (2005) suggestion, functions noncore for the outsourcer is core for the vendors. Since it is a core activity for the vendor, it would strive to bring about improvements in the outsourced process and deliver superior quality standard than the company itself.

To give more focus for core functions of the bank was another alternative presented for respondents. Similar to the above two alternatives as table 4.2 illustrates most of the respondents (74.78%) suggest that it was one of the reason for outsourced services in CBE, while 16.22% were neutral and least (9.01%) replied as it was not the factor to make a decision on outsourcing. In connection with improving service flexibility, 12.61% said CBE did not consider this as reason for outsourced services and 19.82 % remain silent, to the opposite great number of respondents (67.57%) conclude that flexibility was not desired as a reason to decide the current outsourced services to be delivered by third party.

According to Bragg (1998) a company manager typically spent the bulk of each day handling the detailed operation their functional areas. By outsourcing this function a company can give the tactical part of each manager's job to supplier which allows the management team to spend more time on strategic issues as market positioning and product development. Similarly 71.18 % of respondents agreed with what Bragg said, whereas 13.52% of them against his proposition and the others (15.32%) were neutral. In addition to this, as per the majority (58.56%) of the informants of the questionnaire, supporting the current fast growth situation of the bank was the reason for outsourcing in CBE but 25.52 % of them void this reason and least (18.92%) have no idea. This also align with Bragg (1998) comment, if the company is rapidly acquiring market share, the management team will be stretched to its limit building the company up and to handle the volume of the business. In such situation the management team will desperately need additional help in running the company by focusing on a small number of core activities.

Another writer Choi (2008), notify that organization may face with a shortage of skilled and experienced staff brought about by the change in the business operation setting , retirements,

resignations, or recruitment problems. As the result outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. To the contrary 30.6% of the sample confirm that accessing new skill was not the rationale for outsourcing the janitorial messenger and security service of CBE even though 30.63% of the respondents were support what choi thought and the least (6.31%) were not taking any side.

To conclude the result of the above data cost reduction, to focus on the core function and strategies of the bank, to save managers time and supporting the current branch expansion of the bank were the rationale of CBE making decision the service to be delivered by the service provider. However accessing new skill and service flexibility were not considers as reason for outsourced services. On top of this manager of outsourcing administrative office also confirm that focusing on core function and saving managers time to concentrate on the strategies of the bank rather than wasting their time on none core activities were the primary drivers for the outsourced services. As he said in addition to these two reasons other benefits like improving service quality and cost reduction also considered at the time of outsourcing initiation stage. More over the data shown in table 4.2 also supported by different theoretical and empirical evidences. As Diskstein and Flast (2009), in earlier periods cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing is shifting to improve the services quality. Aran and Patel (2005) also suggested that outsourcing is driven by a number of factors such as cost, focusing on core areas, improves service level and process innovation, of all these cost consideration and the need to focus on core activities seems to be the prominent drivers. Through a time reducing the cost has become a trivial factor rather value addition to the business is the main focus. More over the research result conducted by Meresa (2007) shows that cost saving, to improve service level and to focus on core function were the reason for outsourcing the janitorial and security service. Among these focusing on core function was the primary reason.

4.3 Benefit Gained After outsourcing the services

Table 4.3 Advantage/benefits of outsourcing janitorial, messenger and Security services
(i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

| NO | Advantage/Benefits after outsourcing the services | 5 | 4 | 3 | 2 | 1 | Total |
|----|--|--------------|--------------|--------------|--------------|--------------|-------------|
| 1 | After outsourcing janitorial, messenger, security service quality has been improved. | 19 17.12% | 14 12.61% | 3 2.70% | 42 37.84% | 33 29.73% | 111 100% |
| 2 | Outsourcing helps the bank to give more focus to its core functions/activities. | 40 36.04% | 39 35.14% | 16 14.41% | 6 5.41% | 10 9.01% | 111 100% |
| 3 | After outsourcing flexibility of the service is improved. | 11 9.91% | 19 17.12% | 8 7.21% | 45 40.54% | 28 25.23% | 111 100% |
| 4 | Outsourcing helped the bank to focus on more strategic areas rather than non core activities. | 32 28.83% | 42 37.84% | 21 18.92% | 7 6.31% | 9 8.11% | 111 100% |
| 5 | Outsourcing of the janitorial, messenger and security services assisted the current fast growth situation of CBE. | 35 31.53% | 41 36.94% | 24 21.62% | 3 2.70% | 8 7.21% | 111 100% |
| 6 | Outsourcing helps for CBE to access new skills not available internally. | 4 3.6% | 19 17.12% | 12 10.81% | 45 40.54% | 31 27.93% | 111 100 |
| 7 | Outsourcing saves management time and money through reduced the need to control day to day operations of the noncore function or activities(Janitorial, messenger and security) of the bank. | 34 30.63% | 45 40.54% | 14 12.61% | 6 5.41% | 12 10.81% | 111 100% |
| 8 | The service provider manages janitorial, messenger and security service better than CBE manage it before outsourcing. | 11 9.91% | 40 36.04% | 37 33.33% | 13 11.71% | 10 9.01% | 111 100% |

Source: survey data

From table 4.3, 29.9% of the respondent said there was service quality improvement after CBE outsourced the janitorial, messenger and security services. On the contrary most of the respondent 67.54% said the service provider did not improve the service it delivered to CBE and others (2.70%) did not say anything about the outsourced service quality.

Referring to the benefit of outsourcing helps to focused on core functions, in sum 71.18% of the respondent revealed that CBE gained more time and focused on its core functions as the result of outsourced the non core functions, another 14.42% of the respondent confirm that the bank did not get such benefit from the outsourced services. Whereas 14.41% of them had no an information whether the bank benefited or not.

According to Choi (2008), flexibility maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. On the contrary, organizations may only be able to maintain resources at a level just sufficient to meet normal demand, which is lead to poorer customer service at peak periods. In such situation outsourcing of functions that are subject to peaks and troughs in usage can provide organization with the flexibility to respond rapidly to changing demands. With regarding to this 65.77% of the respondents confirm that the flexibility of outsourced service was not improved, on the opposite side 27.03% of the respondents respond as the service provider improved the flexibility of the service and the few (7.21%) of them were neutral on this issue. Which means the majority conclude that, the service provider did not realize the benefit of outsourcing supposed by the above author.

As observed in the above table 4.3, although 14.42% of the respondents disagreed, 66.67% of them assert that outsourcing helped the bank to focus on more strategic areas rather than none core activities, and last 18.92% of the respondent had no idea about such benefits in the bank. This point is strengthen by Choic(2008), outsourcing of some non-core functions provides organizations to focus their resources on activities critical to their mission and leads the organization concentrates on carrying out its priorities by using financial, human and management resources more effectively and efficiently. In addition to this 68.47% of the respondents agreed with the service provider support the current fast growth of situation of CBE

by providing the out sourced services, while 9.91% of the respondents did not accept it, the remaining 21.62% had no suggestion on one of the two extreme propositions.

With respect to whether or not outsourcing helps for CBE to access new skills not available internally, only 20.72% of the respondents said it enabled the bank to access new skills, 10.81% were neutral but the majority 68.47% of them approved that the current outsourced services in CBE did not have any connection with accessing new skill.

As it is displayed in table 4.3, greater number (71.17%) of the respondents disclosed that outsourcing helped CBE to saves management time and money through reduced the need to control day to day operations of the janitorial, messenger and security services, on the other side 16.22% of them disagreed with such benefits of the bank supported by the majority, and the remaining 12.61% had no any ideas like others. Bragg (1998) mentioned that one of the benefit of outsourcing is a company has no longer to deal with the hiring, firing, personnel related paper work because of the supplier take care of all these administration details which need more time. The other issue raised with related to the benefit of CBE after outsourced the services was about the performance of service provider managing the outsourced services as compared the bank managed by itself. Among the respondents 45.95% replied that the service provider managed it better than CBE, 20.72% of them said the service provider did not managed it better than the bank and the last 33.33% but not least were neutral.

To sum up the above data, majority of the respondent confirms that after the bank outsourced the janitorial, messenger and security services it enjoyed two basic benefits. The first one was outsourcing helped the bank to focus on more strategic areas and core functions to realize the current fast expansion of banking service throughout the country. Secondly, outsourcing allowed for the bank management to save their time and money by reducing the need to control the day to day operations of the janitorial, messenger and security services after the responsibility for managing the operations and administrative activities were transferred to the service provider. However, the service provider can't able to excel outsourced services quality due to its poor management and lack of continuous follow up in commercial bank of Ethiopia.

4.4 Employees Attitude towards the Outsourced Services

Table 4.4 CBE employee's attitude towards the outsourced services.
(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

| No | Items | 5 | 4 | 3 | 2 | 1 | Total |
|----|--|--------------|--------------|--------------|--------------|---------------|-------------|
| 1 | After CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents are delivered and received on time as compared to the service before outsourced. | 4 3.60% | 17 15.32% | 28 25.23% | 37 33.33% | 25 22.52 % | 111 100% |
| 2 | Theft decreased in CBE after security service is outsourced as compared to before it was outsourced | 9 8.11% | 13 11.71% | 12 10.81% | 45 40.54% | 32 28.83% | 111 100% |
| 3 | CBE customers feel more secured and comfortable with the security services delivered by the bank after outsourcing. | 30 27.03% | 36 32.43% | 8 7.21% | 17 15.32 | 20 18.02% | 111 100% |
| 4 | Janitors, security guards and messengers are committed to their duties and responsibilities. | 14 12.61% | 23 20.72% | 12 10.81% | 44 39.64% | 18 16.22% | 111 100% |
| 5 | Cleaning service is delivered on time without affecting office hours. | 29 26.13% | 51 45.96% | 18 16.22% | 10 9.01% | 3 2.70% | 111 100% |
| 6 | Janitors are skilled and use appropriate cleaning materials. | 36 32.43% | 39 35.14% | 15 13.51% | 7 6.31% | 14 12.61% | 111 100% |
| 7 | Messengers and security guards of the bank are well trained and know their jobs as well as they perform tasks according to CBE expectations. | 11 9.91% | 13 11.71% | 27 24.32% | 18 16.22% | 42 37.84% | 111 100% |
| 8 | CBE should outsource other non core functions or activities of the bank in addition to the services outsourced currently. | 16 14.41% | 13 11.71% | 17 15.32% | 36 32.43% | 29 26.13% | 111 100% |
| 9 | Janitors are available at anytime in the office if their service is needed. | 32 28.83% | 43 38.74% | 5 4.50% | 24 21.62% | 7 6.31% | 111 100% |

| | | | | | | | |
|----|--|--------------|--------------|-------------|--------------|--------------|-------------|
| 10 | Messengers have good understanding about the value of bank documents they received or delivered to others on behalf of the bank. | 20 18.02% | 16 14.41% | 8 7.21% | 44 39.64% | 23 20.72% | 111 100% |
| 11 | You and CBE customers are satisfied with the current janitorial, messenger, and security services offered by the service provider. | 12 10.81% | 21 18.92% | 10 9.01% | 37 33.33 | 31 27.93% | 111 100% |

Source: survey data

Table 4.4 shows that the majority of respondents (55.85%) replied as after CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents were not delivered and received on time as compared to the service before outsourced, whereas 18.92% of the respondent refused this and the rest 25.23% were neutral. With regarding to security 19.82% answered theft is decreased in CBE after security service was delivered by the service providers, while 10.81% of the respondents did not perceive whether the level of theft increase or decrease, despite the fact most of them (69.37%) argued that the theft did not decrease in their organization. As the result, 59.46% of the respondents said CBE customers did not feel more secured and comfortable with the current security services delivered by the service provider, to the opposite 33.34% of them supported that their customers were feel safe and comfort with the security service of CBE after it was outsourced and the remaining 7.21% nothing said.

As we observe from the above table, about 55.86% of informants of the questionnaire indicated that outsourced employees (janitors, messengers and security guards) were not committed to their duties and responsibilities although 33.34% of them tried to falsify it. On the other said majority (72.09%) of the respondents assured that janitors provide cleaning service without affecting their office hours, even if 11.71% rejected this ideas. On top that 67.57% of the respondents replied as janitors are skilled and they used appropriate cleaning materials, whereas 18.92%, 13.51% of them were opposed and in between respectively towards the statement rated by the majority respondents.

In connection with skill and performance of outsourced employees, 54.06% said messengers and security guards of the bank were not well trained and know their jobs as well as they did not

perform tasks as per their expectation. Some (21.62%) of them argued in the opposite side of the majority and the rest 24.32% did not give an emphasis for this issue. Thus, most of the respondents (58.56%) recommend that in the future commercial bank of Ethiopia should not outsource other non core functions rather it is better to keep in house. But 26.12% suggest as the bank should outsource more non core functions and the remaining (15.32%) preferred silent.

In addition to data collected through questionnaires an interview made with the manager of CBE outsourced administrative office strengthens the idea of CBE employees stated above. As he said the major problem that they faced with related to outsourced services were the service provider hire unskilled employees especially in security guards and messengers. He also mentioned that according to the service level agreement that they made at the time of contract, the service provider should provide skilled full employees as the job required and it should give the necessary training that helps for performers to perform their duties and responsibilities in the bank. Next to this, he notified that as financial organization commercial bank of Ethiopia need strong and equipped security guards, but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it. This is complied with Bragg (1998) suggestion; supplier sometimes gets around the high price problem by paying a very low rate to its security employees, which results in outsourcers being given a very junior security force who didn't have enough skill and experience about the work. Domberger (1998) also said that the ultimate goal of service provider is to make profit whereas the client seeks to obtain the best value for money from the contract. Thus, the interest of these two parties obviously diverges and the service provider stands to benefit from shrinking resources which results in an incentive to reduce efforts. Moreover, the manager stated that even though the current service provider has performed below the standard stated in SLA, still the bank get benefit from outsourcing in different aspects. As the result CBE already identified and planned to outsource additional non core functions such as human resource recruitment and selection, mail service, acquired asset management to other service providers for those specialized in the area.

According to the survey result in table 4.4 most of the respondents (67.57%) reported that janitors were available in the office at any time when they need their service, whereas 27.93%

of them said janitors were not found around their office if they demand the service and the remaining (4.5%) of the sample were neutral. In addition to this, with regarding to knowledge of messengers about the bank document they received or delivered to others, 32.43% respond as they have good awareness about it, while 7.21% did not said anything and many of them (60.36%) assured that messengers did not know the value of bank document in connection with their job. For open ended questions the majority also proposed that not only messengers' security guards also need training in order to improve the service they provide. Finally, greater number (61.26%) of the respondents concludes that they and their customers did not satisfy with the outsourced services currently delivered by the service provider (commercial Nominees PLC) even if 29.73% of them noticed that they are satisfied. On the contrary as I observed in CBE service level agreement document, the service provider expected to provide security and cleaning service with 100% and 75% user satisfaction rate respectively. This implies that there is a great gap between the standard and reality in the ground.

Generally, the response of informant's show that the service provider offered good cleaning services which is manifested by the janitors were available at any time without affecting office hours and they also used proper cleaning materials. With regarding to security service as most of the respondents indicated that the quality of the service delivered by the service provider was not good as the result the number of theft actions not vanished in the bank especially in the lobby area and their customers did not feel they are more secured. Similarly, bank documents were not collected and delivered on time and messenger lack knowledge about the bank documents they received or delivered to others in behalf of CBE. More over employees of the service provider also lack commitment and belongingness towards their duties and responsibilities.

Table 4.5 The attitude of employees of the outsourced services.
(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

| NO | Items | 5 | 4 | 3 | 2 | 1 | Total |
|----|---|--------------|--------------|--------------|--------------|--------------|------------|
| 1 | Your employer created a conducive working environment and provides the necessary material on time that helps to perform your job. | 20 27.03% | 8 10.81% | 2 2.70% | 32 43.24% | 12 16.22% | 74 100% |
| 2 | The service provider (employer) regularly monitors your performance. | 31 41.89% | 22 29.73% | - | 16 21.62% | 5 6.76% | 74 100% |
| 3 | You have good skill and experience to perform your current duties and responsibilities in the bank. | 39 52.70% | 18 24.32% | 2 2.70% | 15 20.27% | - | 74 100% |
| 4 | The amount of commission your employers collect from your monthly salary is fair. | 4 5.41% | 10 13.51% | 3 4.05% | 32 43.24% | 25 33.78% | 74 100% |
| 5 | Your current salary is proportional to the duties and responsibilities that you perform in the CBE. | 6 8.11% | 8 10.81% | - | 21 28.38% | 39 52.70% | 74 100% |
| 6 | You have a good social relationship with CBE employees. | 48 64.86% | 11 14.86% | 9 12.16% | 6 8.11% | - | 74 100% |
| 7 | You have a formal regular meeting with your employer to discuss problems faced in your job. | 4 5.41% | 10 13.51% | 7 9.46% | 29 39.19% | 24 32.43% | 74 100% |
| 8 | CBE staffs and customers satisfied with the service you provide. | 22 29.73% | 17 22.97% | 12 16.22% | 20 27.03% | 3 4.05% | 74 100% |
| 9 | Your job security is ensured. | 14 18.92% | 9 12.16% | 3 4.05% | 18 24.32% | 30 40.54% | 74 100% |
| 10 | There is a good relationship between Commercial Bank of Ethiopia and your employer | 12 16.22% | 34 45.95% | 16 21.62% | 5 6.76% | 7 9.46% | 74 100% |

Source: survey data

The above table 4.5 shows that 37.84% of the respondent replied as the service provider supply working materials on time and it create conducive working environment, whereas the majority (59.46%) rejected what the first respondent said and the remaining (2.7%) were neutral. With

related to this problem interviewee of human resource manager of the service provider explained that in the service level agreement some input material like checking machine not clearly mentioned who provide it. As the result there is still a problem of supplying such materials which are critical to deliver quality security service. In relation to performance most of the informants (71.62%) said that the service provider regularly control their performance, however 28.38% of them did not accept it.

With respect to skill 77.02% of the respondents assure that they have good skill and experience to perform their duties and responsibilities, others 20.27% informed as they lack work experience and skill to perform their tasks and the last 2.70% of them were in between the two groups. To the contrary as the time of interview both the manager of the service provider and service receiver explained that one of their basic problem is lack of skilled man power in security, messenger and janitorial services in the market. According to the manager of the service provider most of their employees have negative attitude towards their job and they think that to perform their duties formal training is not as such crucial. As his explanation this is the reason for employees assume themselves skilled enough.

As we observe from the above table most of the respondents (77.02 %) confirm that the amount of commission that the service provider collect from their monthly salary was not fair, while 18.92% of them said it was fair and the rest 4.05% did not have any idea about it. On top of this 81.08% of the informants argued that their current salary is not proportional to their duties and responsibilities, to the opposite 18.92% of them agreed that their salary is mach with what they did in the bank. In this issue human resource manager of the service provider mentioned that CN did not provide other benefit to the outsourced service employees (messenger, janitors and security guards) like that of permanent employees and this may create employees dissatisfaction .In addition to this manager of the service receiver said that even though janitors, messengers and security guards played its own role to achieve goal of the bank they were not benefited from bonus that the bank allowed for its employees at the end of the fiscal year and this affect employee motivation. Moreover with regarding to social interaction,79.72% of the sample replied as they have good social relationship with the employees of the service provider, even if 8.11%, 12.16% of them were opposed the majority response and in between respectively.

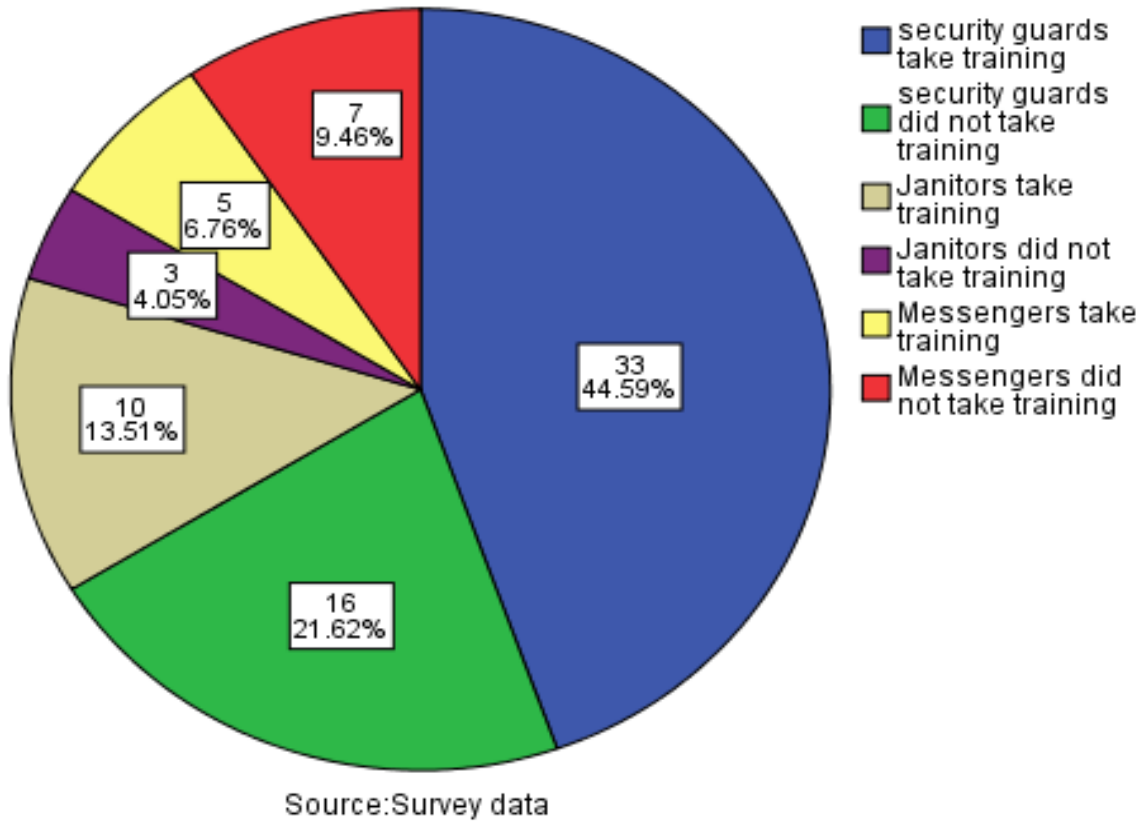
From Table 4.5, 71.62% of the respondents assured that there was no a regular discussion program with their employer (commercial Nominees PLC) about the service they provide to CBE, while 18.92% of them answered against the majority and the remaining 9.46% remain silent. Human resource manager of the service provider also confirm the majorities idea at the time of interview. However, as the manager mentioned there is a quarterly meeting with CBE authorized bodies to discuss about the three outsourced services.

According to the survey result in table 4.5 most of employees of the outsourced services (64.86%) said that they did not have a job security, 31.08% of them were disagreed with the majority and the rest 4.05% have no idea about this issue. In connection with this human resource manager of the service provider stated that employees had a fear of job loss because of the service provider hired them temporarily and this results a negative impact on their performance as well as organizational performance.

In addition to having good relationship between employees of the service provider and service receiver as stated in the above data, the majority (62.17%) again approved that there is also good interaction between the two organizations and others 21.62% ,16.22% were neutral and against with most of the respondents correspondingly.

According to Brown and Wilson (2005) establishing good relationship is one of the challenges of outsourcing. In this respect as the data shows there is a good relationship between the service provider and service receiver as well as between their employees. And also the service provider tried to control the performance of outsourced employees by making discussion with CBE authorized bodies even though there was no a formal channel of communication for messengers, janitors and security guards to inform problems they faced in their work. The above data also indicates that employees of the outsourced services did not gain additional benefits from the service provider or the service receivers like other permanent employees working with them. In addition, as the janitors, messengers and security guards mentioned that the service provider collects much money from their monthly salary in the form of commission and they have a fear of job loss.

Figure 4.1 Employees of the outsourced services Vs Training



As the above figure 4.1, shows that among employees of the outsourced services 44.59%, 13.51% and 6.76% of security guards, janitors and messengers asserts that they were take training with related to their job respectively. Which means only 64.86% of the employees of the service provider working in CBE were take training. On the other hand from those employees who did not take training 21.62% were security guards, 9.46% were messengers and the remaining 4.05% of them were janitors.

Generally, 35.13% of outsourced employees working in CBE (janitors, security guards and messengers) did not take training about their job that helps to perform better. This data supports the ideas of CBE employees forward for questions in table 4.4 i.e. outsourced employees were not properly trained, they lack knowledge and skill about their job.

4.5 Challenges of Outsourcing

Table 4.6 Challenges observed after outsourcing the service.

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

| NO | Challenges/problems of outsourcing | 5 | 4 | 3 | 2 | 1 | Total |
|----|---|----------------|----------------|----------------|----------------|----------------|---------------|
| 1 | CBE losses direct controlling of the day to day activities and performance of the outsourced services (i.e. janitorial, messenger and security services). | 30 (27.03%) | 41 (36.94%) | 15 (13.51%) | 6 (5.41%) | 19 (17.12%) | 111 (100%) |
| 2 | Difficult to measure the service quality. | 26 (23.42%) | 54 (48.65%) | 7 (6.31%) | 21 (18.92%) | 3 (2.70%) | 111 (100%) |
| 3 | Inconsistent service quality. | 39 (35.14%) | 35 (31.53%) | 20 (18.02%) | 5 (4.50%) | 12 (10.81%) | 111 (100%) |
| 4 | Unethical behavior of janitors, messengers and security guards. | 10 (9.01%) | 4 (3.60%) | 18 (16.22%) | 43 (38.74%) | 36 (32.43%) | 111 (100%) |
| 5 | The cost of the outsourced service increased through a time more than expected. | 14 (12.61%) | 25 (22.52%) | 32 (28.83%) | 22 (19.82%) | 18 (16.22%) | 111 100% |

Source: survey data

From the above table 4.6 the majority (63.97%) claim that CBE losses direct controlling the day to day activities and performance of the outsourced services, others 22.53% of them against with the majority and the remaining 13.51% did not state their stand. This is in line with what Domberger (1998) said, outsourcing involves the perceived loss of control. Many managers adhere to the view that ownership means control. In outsourcing if complementary assets are independently owned, cost will higher and efficiency lower than if they are held under single ownership. Thus, this indicates loss of control through fragmented ownership implies higher cost or inefficiency. In addition Alex Bank (2010) also stated that, due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

Similarly, 72.07%, 66.67% of the respondents replied as difficulty of measuring service quality and inconsistency of the service quality also problems faced in their organizations respectively. This response assert by most of the informants also agreed with Dickstein and Flast (2009), the first problem related to outsourcing is the supplier ability to supply the service may change through a time and unable to provide a quality service expected by the client due to financial difficulties, knowledge and skill gap, and technological backwardness. and the second one is outsourcing intangible products like security service, courier service and janitorial service are not as such transparent, and it difficult to measure the service like that of tangible products.

Table 4.6 depicts, small number (12.61%) of the sample said unethical behavior of the outsourced employees were the problem in CBE, most of them (71.17%) rejected the statement related to ethical problem and the rest were neutral.

As Dickstein and Flast (2009) in outsourcing the service provider or outsourcer may have a lack of management experience, due to this start-up, transition and management cost will increase. Domberger,(1998)also notify implicit costs are exist because of not possible to foresee all future contingencies. But in relation to this even though there was no a significance difference between the two extreme ideas, majority (36.04%) of the respondents said cost escalation was not the problem of their organization, other 35.13% argued as due to outsourcing the cost was increased through a time and the rest (28.83%) did not perceive the effect of cost in CBE.

In addition to the above problems, according to the manager of outsourced service administrative office, vendor selection was another challenge they faced in relation to outsourcing. As he mentioned this problem was face due to lack of competent service provider in the market and even after selection the current service provider not performed as per the service level agreement. In this regard Brown and Wilson (2005) confirm that, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing challenges for outsourcing. Moreover, the human resource manager of the service provider disclosed that as the concept of outsourcing is new for the service providers as well as the service receiver, defining the service level agreement and measuring its cost were another problem.

Therefore the above data implied that at the beginning of outsourcing process commercial bank of Ethiopia encounter a difficulty of defining SLA and selecting the right vendor in connection with lack of competent service provider in the market. In addition to this even after the three services transferred to third party the bank also faced with loss of control, difficulty of measuring the service quality and inconsistency of service quality delivered by the service provider.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This part of the study summarizes and concludes the main findings obtained from the collected data and provide some recommendations to be implemented by concerned bodies in order to alleviate existing challenges and problems.

5.1 Summary of Findings

The following points are the major findings of the study:

- ❖ The study shows that Commercial bank of Ethiopia has its own reasons to make outsourcing decisions. In this regard supporting the current banking service expansion, cost reduction , improve service quality, focusing on core function and strategies of the bank, and saving managers time that allotted for controlling the day to day activities of none core functions were the reason for outsource janitorial messenger and security service in CBE. Among these according to the manager of CBE outsourced service administrative office and the majority respondents, focusing on the core functions and strategies of the bank, and saving manager's time were the primary drivers to decide the three services to be delivered by an external service provider.

- ❖ Majority of the respondents confirm that after the bank outsourced the janitorial, messenger and security services it enjoyed two basic benefits. The first one was outsourcing helped the bank to focus on more strategic areas and core functions to realize the current fast expansion of banking service throughout the country. Secondly, outsourcing allowed for the bank management to save their time and money by reducing the need to control the day to day operations of the janitorial, messenger and security services after the responsibility for managing the operations and administrative activities were transferred to the service provider. However, the service provider can't excel messenger and security services quality due to its poor management and a lack of continuous follow up in commercial bank of Ethiopia.

- ❖ As the response of the majority (67.57%) indicates that the service providers offered good cleaning service as compared with messenger and security services. Janitors were available around the office at any time to provide the service without affecting office hours and they also used proper cleaning materials.

- ❖ Even though security service is very critical for financial institutions as most of the respondents (69.37%) indicated that the quality of security service delivered by the service provider was not good. As the result the number of theft actions was not vanished in the bank particularly in the lobby area. On top of this according to manager of CBE outsourced service administrative office, as financial organization commercial bank of Ethiopia need strong and equipped security guards, but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it. Similarly, incoming and outgoing letters, cheques, memos, and other documents were not delivered and received on time as compared to the service before outsourced. Messengers lack knowledge about bank documents that they received and delivered to others. In addition to this employees of the service provider also lack commitment and belongingness towards their job. Due to this fact employees of CBE has a negative attitude towards outsourcing and they (58.56%) recommend that in the future the bank should not outsource other none core activities rather it is better to keep in-house.

- ❖ Outsourced service employees (messengers, janitors and security guards) dissatisfied with salaries and benefits received from their employer and as they are temporary employee they have a fear of job loss. On top of this majority of them (71.62%) assured that there was no a regular discussion program with their employer (CN) about their own problems as well as the service provides to the bank. Thus, employees of the service provider working in CBE lack commitment and belongingness towards their job.

- ❖ At the beginning of outsourcing process commercial bank of Ethiopia encounter a difficulty of defining SLA and selecting the right vendor in connection with lack of competent service provider in the market .In addition to this even after the three services transferred to third party the bank also faced with loss of direct control outsourced services, difficulty of measuring the service quality as per SLA, underqualifid employees and inconsistency of service quality delivered by the service provider.

- ❖ For open ended question most of the outsourced employees reveals that their major problem was less salary and unable to gain other benefit .As they expressed even though the bank allocate good salary per individual and make payment for the service provider, the employer collect high amount of commission from their monthly salary and their disposable income became less.

5.2 Conclusions

The aim of this research is to assess the challenge and prospects of outsourcing in commercial bank of Ethiopia. In this regard the researcher tried to address the research theme by identifying the reasons for outsourcing the services, benefits gained after outsourcing, employee's attitude towards the level of outsourced services and problems faced due to outsourced the services. Finally based on the findings the researcher offered the possible solutions that help to overcome the existing problems and maximize the prospects of outsourcing.

Outsourcing has emerged as the most powerful tool for companies seeking to stay in today's competitive business environment. Its successful adoption involves different concerned parties in making important decisions about the business they are in and the best mechanism for delivering their services to the customers. The initial step of outsourcing is to determine the primary reasons for outsourcing a particular service (Choi, 2008). Buelen, et al (2006) claim that whether in a specific organization situation to be outsourced or not depends on a number of internal and external factors: the extent which the activity belong to the core of the organization ,the existing market for the service to be produced, the capacity of outsider provider ,the increasing of transaction cost etc. In earlier period cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing shifted to improve the services delivered by the company, focus on core function, to create business strategy with other company etc. Similarly, focusing on the core functions and strategies of the bank, and saving manager's time were the main reasons for commercial bank of Ethiopia to decide the outsourced service to be delivered by another party.

As the findings indicates in connection with the outsourced services commercial bank of Ethiopia able to save management time that they allocate to manage non core functions before the services were outsourced. As the result CBE management get more time to focus on core activities and able to increase the accessibility of banking service by opening new branches in different part of the country. However the bank also faced with different problems or challenges such as poor messenger and security service, loss of direct controlling the outsourced services, difficult to measure the eservice quality, lack competent service provider in the market, difficulty

of defining the service level agreement, less skilled and motivated employees hired by the service provider. Thus, CBE employees have a negative attitude towards outsourced service delivered by the service provider and they recommend that in future commercial bank of Ethiopia should not outsource other functions rather it is better to provide the service by itself.

In order to keep the prospects of out sourcing and to solve the existing problems a great effort expected from CBE out sourced service administrative office by taking corrective actions as per SLA and need to properly define who is responsible for supplying input materials like checking machine for security guards. Nutshell, although the outsourcing practice in commercial bank of Ethiopia has some positive achievements the overall result is below the service level agreement (SLA) made between the two parties.

5.3 Recommendation

Commercial bank of Ethiopia encountered drawbacks in connection with outsourced services. So, as to alleviate this drawback, the following recommendations are forwarded.

- The banks need to revise the service level agreement and properly define who is responsible for supplying input materials related to security service. In connection with this bank should provide the necessary materials like checking machine for security guards by itself or making the payment for the service provider to supply these materials.
- In order to supply skilled employees as per the job specification the service provider need to establish its own training center or deal with other organizations which have training centers. For example in connection with security guards the service provider can get training support from regional or national police training centers by communicating with the concerned government bodies.
- To receive or deliver incoming and outgoing bank documents from other branches or other bank on time, means of transportation has a great impact on the service quality of the bank delivered to its customers. Thus, to decrease service delivery time service

provider and CBE should discuss and facilitate a personal transportation mechanism such as a motorbike for messengers work out of the office.

- In order to avoid theft and increase the quality of security service the service provider should discuss with the bank and need to install security cameras especially in the main gate, lobby and cash vault areas.
- It is difficult to control and improve the service quality by reviewing reports coming from the immediate supervisor. So, CBE outsourced service administrative office should regularly monitor the quality of outsourced services by visiting and asking the service receiver in the particular area.
- As most of the messengers, janitors and security guards reveals that even though the bank allocate good salary per individual and make payment for the service provider, the service provider collect high amount of commission from their monthly salary. This affects employee's motivation towards to their job. So in order to solve such problem the bank need to discuss with the service provider to allocate appropriate salary and other benefits that mach with their duties.

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Appendix A

**Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
School of Graduate Study**

Questionnaire to be filled by CBE employees

Dear Respondents:

This questionnaire is designed to conduct a research on the topic ‘**Challenges and prospects of outsourcing the case of commercial Bank of Ethiopia**’. The purpose of the study is for the partial fulfillment of the requirement of MA degree in Development Management. For the successful accomplishment of the study, your response have key role by being used as valuable input for the study. The information that you provide is strictly confidential and will be used only for academic purpose. Thus, you are kindly requested to genuinely fill the questionnaire.

Thank you in advance for your cooperation.

Instructions:-

- ❖ Writing your name is not necessary.
- ❖ For close ended questions put “✓” mark and for open ended questions write a brief answer in the space provided.

Part One: Respondent Profile

1. Sex Male Female
2. Age (Years) below 25 25-35 36- 45 above 46
3. Educational Level Diploma First Degree Above first Degree

Part Two: Questions Related with the topic

Dear Respondents for question no. 4 to 7 please read the statement and put “✓” mark in the corresponding column (i.e. 5=strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly Disagree)

4. Questions related to the reasons of outsourcing the janitorial, messenger and Security services.

| NO | Reasons for outsourcing | 5 | 4 | 3 | 2 | 1 |
|-----------|--|----------|----------|----------|----------|----------|
| 1 | To reduce cost. | | | | | |
| 2 | To improve service quality. | | | | | |
| 3 | To give more focus to core functions of the bank. | | | | | |
| 4 | To improve flexibility of the service by the service provider. | | | | | |
| 5 | To save manager’s time and lead them to focus on strategies of the bank. | | | | | |
| 6 | To assist the current fast growth situation of CBE. | | | | | |
| 7 | To access skills not available in CBE. | | | | | |

5. Questions related to advantage/benefits of outsourcing janitorial, messenger and Security Services.

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

| NO | Advantage/Benefits after outsourcing the services | 5 | 4 | 3 | 2 | 1 |
|-----------|---|----------|----------|----------|----------|----------|
| 1 | After outsourcing janitorial, messenger, security service quality has been improved. | | | | | |
| 2 | Outsourcing helps the bank to give more focus to its core functions/activities. | | | | | |
| 3 | After outsoaring flexibility of the service is improved. | | | | | |
| 4 | Outsourcing helped the bank to focus on more strategic areas rather than none core activities. | | | | | |
| 5 | Outsourcing of the janitorial, messenger and security services assisted the current fast growth situation of CBE. | | | | | |
| 6 | Outsourcing helps for CBE to access new skills not available internally. | | | | | |
| 7 | Outsourcing saves management time and money through reduced the need to control day to day operations of the noncore function or activities (janitorial, messenger and security) of the bank. | | | | | |
| 8 | The service provider manages janitorial, messenger and security service better than CBE manage it before outsourcing. | | | | | |

6. Questions related to employees attitude towards the out sourced services.

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

| No | Items | 5 | 4 | 3 | 2 | 1 |
|----|--|---|---|---|---|---|
| 1 | After CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents are delivered and received on time as compared to the service before outsourced. | | | | | |
| 2 | Theft decreased in CBE after security service is outsourced as compared to before it was outsourced | | | | | |
| 3 | CBE customers feel more secured and comfortable with the security services delivered by the bank after outsourcing. | | | | | |
| 4 | Janitors, security guards and messengers are committed to their duties and responsibilities. | | | | | |
| 5 | Cleaning service is delivered on time without affecting office hours. | | | | | |
| 6 | Janitors are skilled and use appropriate cleaning materials. | | | | | |
| 7 | Messengers and security guards of the bank are well trained and know their jobs as well as they perform tasks according to CBE expectations. | | | | | |
| 8 | CBE should outsource other non core functions or activities of the bank in addition to the services outsourced currently. | | | | | |
| 9 | Janitors are available at anytime in the office if their service is needed. | | | | | |
| 10 | Messengers have good understanding about the value of bank documents they received or delivered to others on behalf of the bank. | | | | | |
| 11 | You and CBE customers are satisfied with the current janitorial, messenger, and security services offered by the service provider. | | | | | |

7. Challenges observed after outsourcing the service.

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

| NO | Challenges/problems of outsourcing | 5 | 4 | 3 | 2 | 1 |
|----|---|---|---|---|---|---|
| 1 | CBE losses direct controlling of the day to day activities and performance of the outsourced services (i.e. janitorial, messenger and security services). | | | | | |
| 2 | Difficult to measure the service quality. | | | | | |
| 3 | Inconsistent service quality. | | | | | |
| 4 | Unethical behavior of janitors, messengers and security guards. | | | | | |
| 5 | The cost of the outsourced service increased through a time more than expected. | | | | | |

If you have additional comments on the following problems please write it.

8. What problems did you observe in?

Janitorial service:

.....

.....

Messenger service:.....

.....

.....

Security service:

.....

.....

9. What measures should be taken to solve the problem you observed and mentioned above?

.....

.....

Appendix B

**Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
School of Graduate Study**

Questionnaire to be filled by janitors, messengers and security guards

Dear Respondents:

This questionnaire is designed to conduct a research on the topic ‘**Challenges and prospects of outsourcing the case of commercial Bank of Ethiopia**’. The purpose of the study is for the partial fulfillment of the requirement of MA degree in Development Management. For the successful accomplishment of the study, your response have key role by being used as valuable input for the study. The information that you provide is strictly confidential and will be used only for academic purpose. Thus, you are kindly requested to genuinely fill the questionnaire.

Thank you in advance for your cooperation!

Instructions:-

- ❖ Writing your name is not necessary.
- ❖ For close ended questions put “✓” mark and for open ended questions write a brief answer in the space provided.

Part One: Respondent Profile

1. Sex: Male Female
2. Age (Years): Below 25 25-35 36- 45 above 46
3. Educational Level: 8 Grade complete 10/12 Grade complete Certificate
 Diploma
4. Job: Janitor Messenger Security Guard

Part Two: Questions Related with the topic

Dear Respondents for question no “5” please read the statement and put “✓” mark in the corresponding column (i.e. 5=strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly Disagree)

5. Questions related to the attitude of employees of the outsourced services.

| NO | Items | 5 | 4 | 3 | 2 | 1 |
|----|---|---|---|---|---|---|
| 1 | Your employer created a conducive working environment and provides the necessary material on time that helps to perform your job. | | | | | |
| 2 | The service provider (employer) regularly monitors your performance. | | | | | |
| 3 | You have good skill and experience to perform your current duties and responsibilities in the bank. | | | | | |
| 4 | The amount of commission your employers collect from your monthly salary is fair. | | | | | |
| 5 | Your current salary is proportional to the duties and responsibilities that you perform in the CBE. | | | | | |
| 6 | You have a good social relationship with CBE employees. | | | | | |
| 7 | You have a formal regular meeting with your employer to discuss problems faced in your job. | | | | | |
| 8 | CBE staffs and customers satisfied with the service you provide. | | | | | |
| 9 | Your job security is ensured. | | | | | |
| 10 | There is a good relationship between Commercial Bank of Ethiopia and your employer | | | | | |

6. How many years do you work in the current job?.....

7. Did you take any training related to your job that helps you perform better?

Yes

No

8. If your answer is NO for question no. "7" do you need a training that related to your current job?

Yes

No

If you say NO, why?.....

9. What problems did you observe in your job?

From your employer side:

.....
.....
.....

From CBE side:

.....
.....
.....

10. What measures should be taken to solve the problem you mentioned above?

.....
.....
.....

Appendix C

**Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
School of Graduate Study**

Interview question to be answered by HR Manager of the service provider

1. What benefits the bank has achieved after your organization provide the janitorial, messenger and security services?
2. Do you think that the janitorial, messenger and security service qualities of CBE are improved after your organization provides the service?, How?
3. What are the major challenges or problems facing your organization in relation to the service you provide to the bank?
-From CBE side - From your side - From Employees side
4. What are the causes of the problem encountered in your organization with related to the service provide to CBE?
5. What solutions were taken to solve the problems?
6. Do your organization has good relationship with CBE and manage the interaction in the Wright way?
7. How your organization monitors or controls the qualities of the service that provide to the bank?
8. Do your organization providing the service as per service level agreement made with CBE? If not what is/ are the reason/s?
9. Is there any formal channel of communication with CBE to discuss the performance, service quality and problem you faced?
10. Did your organization give an induction or training for employee that helps to perform their job better?
11. Do you think that your employees are skilled and perform their job as CBE expectation?
12. Is your organization providing a better salary and benefit for employees than were provided by the Bank?
13. Would you like to add anything related to the topic that I didn't cover in my questions?

Appendix D

**Addis Ababa University
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Interview question to be answered by Manager of the outsourcing Administration Office

1. What are the drivers/reasons that encourage your organization to outsource?
2. What benefits the bank has achieved by outsourcing the three non core functions?
3. Do you think that the janitorial, messenger, and security service qualities are improved after outsourcing? , how?
4. What are the major challenges or problems facing CBE in relation to outsourcing?

Such as:
 - Deciding what to outsource
 - Change management
 - Defining SLA
 - Service provider not perform as per SLA
 - cost increment more than your expectation
 - Vender selection
 - Managing the process/Relationship, or
 - Any other
5. What new problems emerged due to outsourcing?
6. What are the causes of the problems encountered in your organization?
7. What type of measure did your organization take to solve problems that faced during? or after outsourcing? (If any)
8. How your organization monitors or controls the quality of the outsourced services and evaluate the performance of service provider?
9. How do you rate the service quality of outsourced functions as compared with the previous one?
10. Do you think that the service quality and performance of the service provider result in Service level Agreement? If not what is/are the reason/s?
11. Is there any formal channel of communication with the service provider to discuss? the performance and service quality? How often?
12. Is your organization planning to outsource any other activities in the future?
13. Would you like to add anything related to the topic that I didn't cover in my questions?

Appendix E

1. Equipments to be used in cleaning service

| S.NO. | Type of Input (Cleaning Equipments & Supplies) | Purpose |
|-------|---|--|
| 1 | Dry vacuum cleaner | Carpet cleaning |
| 2 | Wet vacuum cleaner | For carpet and upholsters extraction and vacuuming wetness from different floor tile areas |
| 3 | Carpet water sucker | To suck wet floor and carpet |
| 4 | Scrubber, buffer, polisher | Scrubbing, buffing and polishing |
| 5 | Scaffolding | To raise up |
| 6 | Pressure water machine | Washing under pressurized |
| 7 | Mobile cleaning set/trolley | To mobilize all the needed cleaning materials |
| 8 | Liquid soap (refill) | For washing hands |
| 9 | Vim or its equivalent | For toilet, sink, ceramic etc. cleaning |
| 10 | Powder cleaning soap | For all cleaning purpose |
| 11 | Bleaching powder | For all cleaning purpose |
| 12 | Dettol or its equivalent | For toilet cleaning |
| 13 | Carpet shampoo | To wash carpet |
| 14 | Carpet freshener | To freshen carpet |
| 15 | Window spray | To clean windows |
| 16 | Wax | Polishing floors |
| 17 | Air freshener | To air freshening |
| 18 | Disinfectant | To be used around toilet area |
| 19 | Special sponge to clean leather and fabrics | For office furniture cleaning |
| 20 | Urinal deodorizer | To avoid bad smell |
| 21 | Potassium permanganate | For toilet cleaning |
| 22 | Mr sheen or its equivalent | For equipments such as computers & telephone apparatus and accessories |
| 23 | Insecticide | Spray to kill insects |
| 24 | Wooden shine | For furniture shining |
| 25 | Alcohol | For table (Cash) and other office equipments |
| 26 | Wet mop | Wet clean |
| 27 | Cleaning sheet | Cleaning equipments and furniture |
| 28 | Floor brush | Cleaning of floors |
| 29 | Toilet brush and plastic pump | Cleaning of toilet |
| 30 | Glove | Hand protection while cleaning |
| 31 | Dust mop / long and short | Cleaning of wale and roof |
| 32 | Broom | Cleaning of floors |
| 33 | Window Squeegee | To remove water after washing |
| 34 | Window washer | To wash windows |
| 35 | Floor squeegee | To remove water after washing |
| 36 | Different kind of bucket | To hold water and immerse the mop head |
| 37 | High raised area duster | To clean high raised areas (like roofs, windows, etc) |
| 38 | Dust pan or waste Basket | To collect dry waste temporarily |
| 39 | Assorted size ladder | To clean high raised areas (like roofs, windows, etc) |

2. The Required Inputs to Ensure security Service Level

- ✓ Use adequate weapons for securing the CBE's property as well as its customers and employees
- ✓ Use adequate lightings to monitor the compound during the night
- ✓ Use searching machines to check entrants if made available
- ✓ Provide the necessary training for security guards on an annual basis
- ✓ Provide communication equipment, like pagers, 2-way radios and/or cellular phones, to the assigned security guards.
- ✓ Deploy supervisors which have prior security experience, know and understand the operational aspect of the security service, be an appropriate role model, and have an ability to teach, guide and direct effectively
- ✓ Assign a shift leader for each site among the deployed security guards who are trustworthy, experienced and competent enough and who can be a model for fellow Security Guards having exceeding security performance record.

3. Compensation or administrative action for failure of service provision

| no | Particular | Compensation/ Administrative Action |
|----|---|---|
| 1 | Failure of Service Provider to provide service within the time frame agreed upon after notification to do so | (0.1% of the performance bond per day) |
| 2 | Failure of Service Provider to correct deficiencies in service or to provide adequate administrative and supervisory functions within five working days after notification | (0.1% of the performance bond per day) |
| 3 | Failure/Delay of the Service Provider to provide the required number of employees within three days after notification | Two times of the daily salary of the unmanned post per day |
| 4 | Involvement in a fraudulent or illegal act against the CBE by an employee of the Service Provider, whether or not he or she is considered "on duty" by the Service Provider | Dismissal of the employee and compensation in proportion with the liquidated damage |
| 5 | Failure of the Service Provider to replace a particular employee to the one which is dismissed from performing within three days. | Two times of the daily salary of the unmanned post per day |
| 6 | Failure of the Service Provider to maintain licenses and permits as required any by governmental agency | Termination of the contract after claiming the performance bond |