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Effects of Outsourcing Employees on Organizational Performance in Commercial Bank of Ethiopia

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*Thesis Submitted to School of Graduate Studies of Addis Ababa
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Statement of Certification

This is to certify that Yanit T/giorgise carried out her research work on the topic entitled “Effects of Outsourcing Employees on Organizational Performance in Commercial Bank of Ethiopia” is her original work and is suitable for submission for the award of Master of Art Degree in Human resource and Management.

Advisor Dr. Atsede Tesfaye

Date & Signature

Declaration

I, Yanit T/giorgise, declare that this thesis entitled “**The Effect of Outsourcing Employees on Organizational Performance in Commercial Bank of Ethiopia**” is my original work. I further confirm that this paper has never been submitted to any other university for any degree, diploma or fellowship. Finally, I declare that all source materials used in this research has been dully recognized and acknowledged.

Yanit T/giorgise

Signature _____

Date _____

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List of Abbreviations

CBE	Commercial Bank of Ethiopia
HR	Human Resource
RBV	Resource Based View
TCE	Transaction Cost Economies
SLAs	Service Level Agreements
SPSS	Stastical Package for Social Science
ANOVA	Analysis of Variance
KPI	Key Performance Indicator

Abstract

Outsourcing is a management strategy through which a company assigns some non-core functions to more specialized, more effective and more efficient service providers such that the organization can be left to perform and concentrate with the core business activities. The aim of this study is to assess the effects of outsourcing on organizational performance at CBE. The researcher used Explanatory research design and purposive sampling to select a sample form in carrying out this study and targeted population of 200 branch managers from six major departments. Data was collected from primary sources through survey method by use of questionnaires. The quantitative data was analyzed through descriptive statistics and inferential analysis by use of statistical package for social sciences (SPSS) version 20 software. Both correlation and regression analysis were done and the results reviewed that: costs and the performance of the bank is having an insignificant strong positive relationship as implied by ($r=0.137$, $p>0.134$). Focus and the performance of the bank is satisfactory have a significant moderate positive relationship as shown by correlation coefficient of ($r=0.278$, $p<0.002$). There is a significant positive relationship between quality and the performance of the bank is satisfactory ($r=0.375$, $p<0.000$).

According to the regression analysis, quality driven outsourcing has a significant impact on performance ($\beta= .263$, $t= 3.557$, $p < 0.05$). However, since significant value $p> .05$ cost driven and focus driven outsourcing do not significantly predict performance. Finally the researcher recommended CBE should outsource with a clear picture in mind as to why they want to outsource.

KEYWORDS: *Outsourcing, Core Function, Organizational performance*

CHAPTER ONE

INTRODUCTION

This chapter deals with the background of study, Statement of the problem, research questions, Objective, Definition of terms, significance, and scope of the study.

1.1. Background of the study

Outsourcing Human Resource (HR) is defined as the practice of turning all or part of an organization to external providers (Lievens and De Corte, 2008). It is a management strategy through which a company assigns some non-core functions to more specialized, more effective and more efficient service providers such that the organization can be left to perform and concentrate with the core business activities.

The aim of outsourcing may be to reduce costs by saving on personal benefits, or to be able to reassign employees to other tasks that are more important. Thus, outsourcing is an important tool for a company to make it grow and to maintain a competitive position. It enables a firm to focus on its core competencies and let outside companies do what these firms can do best (Koontz and Wehrich, 2004).

The choice of outsourcing or any other type of global sourcing destination will depend on a variety of factors. These factors include; labor costs, quality and focus on core activities (Willcocks. L., 2003).

The basic reason for outsourcing is to reduce costs and ensure organizational efficiency and effectiveness added with an improved quality. The organization chooses to spend those savings, whether they are passed along to its customers, reinvested into other areas of its operations, or returned to its owners and shareholders, the need for every organization to continually drive down its costs is constant. Another most important driver of outsourcing is the creation of more variable cost structures. Instead of having relatively fixed investments in its internal operations, the company that chooses to outsource will find that its cost structure can shift to an on-demand model. This reduces the effective cost of operations by enabling the company to adjust expenses in response to changes in the services (Corbett, 2004).

According to Koonts and Wehrich, (2004), other reasons why companies engage in outsourcing include gaining access to the best sources available worldwide, sharing of risks between the firm and its suppliers, and allocating capital to key success factors. In general, outsourcing enables a firm to focus on its core competencies and let outside companies do what these firms can do best and thereby influence the organizational performance measured by analyzing its organizational achievements as compared to corporate goals and objectives based on the essential expected outcomes such as: financial performance, market performance and shareholder value performance. On the other hand, outsourcing may pose a threat when quality is a key concern for the outsourced work as intellectual capital and knowledge could be lost. There is also the issue of damaged morale and motivation in the organization through outsourcing as in-house expertise may be diminished. Confidence and lack of customer knowledge may also be a deciding factor for most firms when considering outsourcing. The performance of external providers may also impact on the firm's financial performance. However, a firm need to consider several factors that may influence its financial performance through outsourcing in deciding whether or not to outsource (Dr Asiamah Yeboa, 2013). According to Muweesi, (2011) Successful implementation of an outsourcing strategy has been credited with helping to increase capacity, improve capacity, and improve quality. Personnel expenses were the primary reason behind outsourcing; however, it also improves operating efficiency.

The core competencies are not to be outsourcing, for example, the company can only outsource IT activities if they are not a part of core competencies. However, Mehta et al. (2006) cited that even in recent outsourcing strategies, the companies have outsourced their core business activities. Outsourcing decision is variable to the type of the business entity and the structure of the corporate but the cost factor has been dominating and overall lower global cost advantages cannot be ignored (Kakumanu and Portanova, 2006). According to Narayanan (2009) there are four strategic reason to outsources respectively, improved cash flow, improved control of payment, scalable staffing and to improve overall business performance.

Outsourcing brings about loss of control, loss of critical skills and knowledge, loss of intellectual property, loss of security, service quality may drop, and costs may increase as well as loss of innovative capability. There should also be a continuous follow-up and monitoring of the service Provider relationship as well as resolving disputes. The most important challenge is how to deal with the change in balance of power that turns in favor of the service provider (Weele, 2010).

Due to the fact that parties in an outsourcing contract engage in a long term relationship many things need to be taken into consideration. Some of the aspects are taken care of in the contract writing. According to Weele, (2010) the risks associated with outsourcing contracts can be summed up as either, technical risks, commercial risks, contractual risks or performance risks.

According to Jiang and Qureshi (2006) companies going for an outsourcing decision also evaluate the cost factor and if the reduction of the present operating cost is achievable through outsourcing then the available resources can be reinvested to gain and maintain competitive advantage. However, Kremic *et al.* (2006) say that many of the firms today are deciding to outsource setting aside the cost factor to focus on core competencies.

However, outsourcing is also fraught with various problems. Outsourcing reduces a company's control over how certain services are delivered which in turn may raise the company's liability. Pearce and Robinson (2009) avers that by definition outsourcing places control and coordination of that function to outsiders, this is loss of control can result in many future problems such as delays in delivery, quality, customers' complaints and loss competitive sensitive information. According to Lysons and Farrington (2006) Problems related to outsourcing include; overdependence on suppliers, costs rise, lack of supplier flexibility, lack of managerial skills to control suppliers and unrealistic expectations of outsourcing providers due to over promising at negotiations stage.

This study was assessing the effect of cost, quality and focus of outsourcing on organizational performance in commercial bank of Ethiopia (CBE).

1.2. Statement of the problem

In today's global economy, outsourcing has become expanding variety of activities in an attempt to improve service and product quality, reduce production cycle times, lower costs, reduce risk, increase their focus on core competencies, and, in general, enhance organizational effectiveness. Firms appear to be focusing on a relatively narrow set of functions and are contracting with outside suppliers to perform the others. Outsourcing does not come without risks, one main risk that is incurred when outsourcing is that when a firm does outsource, they leave the supply of that product or service in the hands of someone whom they cannot control, contrary to controlling their own supply (Maynard, 2006).

Commercial bank of Ethiopia outsources some of its operational, facility management and human resource functions to improve its organizational performance. However, the company has not benefited as expected from outsourcing. The main problem is that outsourcing employees like security, janitorial and messenger service are not as such transparent, and it is difficult to measure the service like that of permanent employees. 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 (<http://www.commercialbankof Ethiopia.com>).

So, the company's become poor performance, decrease sales, reduce market share, and reduce the company's profitability. There should be the agreement between the company and the agency for working together to more specialized, more effective and more efficient service providers (Meresa, 2007).

Many studies in Ethiopia done related to outsourcing were talk about benefit and challenges of outsourcing and very few in related with organizational performance. For instance, Betelhem mekuriya (2017) made her study on challenges and prospects of outsourcing practices in the case of Commercial Bank of Ethiopia. She focused on outsourcing organizational performance identifies three types of measures as necessary components in an outsourcing measurement system. By using financial, human and management resources more effectively and efficiently, Tewodros Tenkir (2017), Made his study on the effect of outsourcing functions on company performance in the case of Commercial Bank of Ethiopia. He focused on five outsourcing variable. The dependent variable includes security, janitorial, messenger and driving function. And the independent variable includes company performance. And he used organizational performance measures based on customer satisfaction, service quality, effectiveness & efficiency. Ahmed Seid (2019), Effect of outsourcing

Non-core business activities on organizational performance in the case of Ethiopian Commodity Exchange. He focused on outsourcing performance measures; He identifies three types of performance measures as necessary components in any outsourcing measurement system, financial performance, operating performance, and behavioral performance. And he studies in another organization. By identifying the gap from those researchers this research was trying fulfilling the gaps by focusing on effect of outsourcing on organizational performance in the case of commercial bank of Ethiopia in the east district. By using explanatory research design, quantitative research approaches and by focusing on four variables including three independent and one dependent variable. The independent variable includes cost driven, Quality-driven and focus -driven, the dependent variable was performance and the performance measures were used market share, sales and profitability.

1.3. Research question

1. What is the practice of outsourcing at commercial bank of Ethiopia?
2. To what extent cost-driven outsourcing affect the organizational performance at commercial bank of Ethiopia?
3. To what extent quality-driven outsourcing affect the organizational performance at commercial bank of Ethiopia?
4. To what extent focus-driven outsourcing affect the organizational Performance at commercial bank of Ethiopia?

1.4. Objectives of the study

1.4.1. General Objective

The general objective of this thesis is to assess the effect of outsourcing on organizational performance at CBE.

1.4.2. Specific objective

- To assess the practices of outsourcing at commercial bank of Ethiopia.
- To identifying whether cost-driven outsourcing affects organizational performance at commercial bank of Ethiopia.
- To determine whether quality-driven outsourcing affects organizational performance at commercial bank of Ethiopia.
- To find out whether focus-driven outsourcing affects organization performance at commercial bank of Ethiopia.

1.5. Definition of terms

- **Outsourcing**

Outsourcing is the practice of turning all or part of an organization to external providers (Lievens and De Corte, 2008).

- **Organization Performance**

Organization performance is the extent to which the organization achieves a set of pre-determined targets that are in line with its mission. From the study of Gathungu and Mwangi, (2012).

1.6. Significance of the study

The understanding of outsourcing among the society in Ethiopia is somehow unfamiliar and undiscovered. Moreover, no formal research has been carried out to find out the country's potential in outsourcing. Therefore, the researcher believes that this research will have great

Significance in creating awareness, about outsourcing, among the society, business people and scholars. Furthermore, this research can serve as stepping stone for other researchers in similar Area. The study also will help to identify the organization performance after outsourcing, and lessons gained for future outsourcing initiatives.

1.7. Scope of the study

This study is limited to outsourced services at commercial bank of Ethiopia branches found only in east district of Addis Ababa. This is due to familiarity and proximity of the study area and availability of data. Also delimited with four variable including three independent and one dependent variable. Therefore, any conclusion that will be drawn from this research is based on the above circumstances. The outsourced services also include security service, messenger service and janitorial service. However, there are also other variable which can measure the performance of outsourcing .as a result, the research finding only indicates the performance of outsourcing with limited dimensions and there may be other outsourced activities which can have impact on the performance of CBE.

1.8. Limitation of the Study

This study is only considered banks located in Addis Ababa and unable to incorporate all commercial bank of Ethiopia in east district organizations which are found throughout the country and doesn't consider the views of the service provider. This is due to limited time and finance. The researcher used the research approach quantitative research techniques and methods were used to provide the best understanding of a research problem Moreover, the study utilized purposive or judgmental sampling technique (which is a technique respondents are selected for a particular purpose) and also adopted in selecting management staff of commercial bank of Ethiopia's in east district branches. As a result, the research finding might not give a comprehensive picture of all outsource employees and services impact on the performance of CBE.

1.9. Organization of the study

This study divided in to 5 chapters. Chapter 1 introduces the background of study, statement of the problem, specifies the research questions and defines the objectives and it discusses the scope and limitations of the study. Chapter 2 presents relevant literature related to outsourcing and its effect on organizational performance in CBE. Chapter 3 describes the study area and explains the methodologies used for data collection, and data analysis. Chapter 4 presents the main results of the study and the discussion of the results while chapter 5 deals with summary, conclusions and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

This chapter presents reviewed literature on the Theoretical literature review, empirical literature review, and conceptual framework.

2.1 Theoretical literature review

2.1.1 The Concept of Outsourcing

Outsourcing can be defined as turning over all or part of an organizational activity to an outside vendor (Baitheimy, 2003). The term outsourcing covers many areas, manufacturing as well as services. It can involve the transfer of some activities to an outside party while some remain in-house. Outsourcing can also involve the transfer of both people and physical assets to the supplier. When the decision to outsource has been made a number of important issues have to be considered including supplier selection, contract negotiation and transitioning of assets to suppliers (McIvor, 2009). Moreover, Outsourcing can be defined as withdrawing from certain stages/activities in the value - chain system and relying on outside vendors to supply the needed products, support services, or functional activities (Wasantha and Laksiri., 2004). Any value chain that produces products for a customer can be seen as a bundle of activities. These activities are either performed internally or externally. For every individual activity a choice must be made (make or buy) and the sum of all the choices determines a firms' overall level of outsourcing, which will differ for every individual firm (Kotabe&Mol., 2009). According to Lyson and Farrington (2006) Outsourcing has been defined as a management strategy by which major non-core functions are transferred to specialist, efficient, external providers. It is strategic in the sense that it involves top management of an organization and is a long-term decision, which affects the whole organization over a considerable period of time. Outsourcing occurs when an organization purchases products or services from an outside supplier, rather than performing the same work within its own facilities, in order to cut costs or achieve effectiveness. The decision to outsource is a major strategic one for most organizations, since it involves weighting the potential cost savings against the consequences of a loss in control over the product or service (Lynn and Louis., 1999).

According to Lynn and Louis, (1999) Successful outsourcing requires a strong understanding of the organization's capabilities and future direction. Decisions regarding outsourcing significant functions are among the most strategic that can be made by an organization; because they address the basic organizational choice of the functions for which internal expertise is developed and nurtured and those for which such expertise is purchased. These are basic decisions regarding organizational design.

2.1.2. Theories related to outsourcing

This section reviews the theoretical framework on which the concept of Outsourcing for organization performance is anchored on. Outsourcing is based on many theories of which this research project was supported by the following theories: Resource Based View, Transaction Cost Economics, Core Competency, and contractual Theory.

❖ Resource Based View (RBV) Theory.

Outsourcing can be explained from the dimension of relationship between service receiver and service provider. The resource based view (RBV) analyses other aspects, taking into account internal strengths and weaknesses. A firm's resource perspective generates the core competencies and competitive advantage for specific business activity, RBV defines resources as tangible and intangible assets within the firm. According to Barney (1991), the resource based view is based on the concept of productive resources.

In view of RBV theory of the firm, outsourcing is taken as a strategic decision which can be used to fill gaps in the firm's resource and capabilities (Grover *et al.*, 1998). Normally firms establish their specific resources which they keep on reviewing in order to respond to shifts in the changing business environment. Hence, firms must come up with dynamic capabilities which are adaptable to the environmental changes (Pettus, 2001). Capability is the key role of strategic management to ably adapt, integrate and reconfigure internal and external organizational skills, resources and functional capabilities to match the requirements of a changing environment.

Combined capability, skills and right resources are necessary ingredients used by service providers to make quality products.

RBV theory puts more emphasis on the firm's internal resource rather than external opportunities and threats created by industry conditions. The theory maintains that in order to generate sustainable competitive advantage a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable and not readily obtainable from markets.

The theory also relies on two key points; first those resources are determinants of firm performance and second that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs a competitive advantage has been created (Priem & Butler, 2001).

❖ **Transaction Cost Economic (TCE) Theory**

Transaction costs arise from the fact that it is not possible for a firm to completely contract while incomplete contracts create renegotiations when the balance of power between the transacting parties shifts (Williamson, 1979). The attribute of a firms' transactions positively associated with transaction costs include the necessity of investment in durable, specific asset, inefficiency of transacting, task complexity and uncertainty, difficult in measuring task performance and interdependence with other transactions.

Transaction cost economics (TCE) theory is based on a rational decision made by firms after considering transaction related factors such as asset specificity, environmental uncertainty and other types of transaction cost. Activities conducted under conditions of high uncertainty require specific assets e.g. human and physical capital. Asset specifically refers to the non-trivial investments in transaction i.e. specific assets.

On the other hand, transaction cost economics (TCE) or theory view the relationship between service receiver and service provider as a model that allows economic transactions to take place (Reuben *et al.*, 2007). Transaction costs include time, money, human resources, contract issues negotiation matters, risks e.tc. Hence the relationship between service receiver and service providers is closely integrated due to cost considerations (Shaharudin *et al.*, 2014). However, according to McIvor *et al.*, (2008), the two theories RBV &TCE can be combined to form a combined view through which outsourcing decisions can be based upon as RBV & TCE complement each other.

❖ **Core competency theory**

Simchi-Levi, Keminisky & Simchi-Levi, (2004), defined core competency as the collective learning in the organization on how to coordinate diverse production skills and integrate multiple streams of Technologies. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buys decision. Non-core activities

Should be considered for outsourcing to the best suited service providers who are experts in that field. However, some few non-core activities which have a big impact on competitive advantage should be retained in house. Core competencies refer to the collective knowledge of the production system concerned in particular knowledge of procedures and how to best integrate and optimize them.

The process of outsourcing non-core competencies continues to gain importance as it transfers responsibilities such as maintenance and transport functions, in the hands of suppliers most capable of performing them most successfully (Chandra & Kumar, 2000). Vendors' competence is an important factor that influences the success of an outsourcing arrangement (Lavina & Ross, 2003).

❖ **Contractual Theory**

For an outsourcing strategy to be implemented, it requires a legally bound contract which sets the institutional framework in which each party's rights, duties, and responsibilities are clearly defined. The goals, policies, practices, and strategies on which the arrangement is based are also specified in the contract. The purpose of the outsourcing contract is to facilitate proper exchange of services between the two parties, prevent misunderstanding, prohibit moral hazards in a cooperative relationship, and protect each party's proprietary knowledge. Properly written contracts prevent risks arising from non-performance and misunderstanding, and also reduces uncertainty likely to be faced by firm decision making process. The contract sets a procedure for conflict resolution (Luo, 2002). Legal experts emphasize the need for comprehensive contract which can serve as a reference point specifying how the client and the vendor relate (Kem & Willcocks, 2000)

2.1.3 Types of Outsourcing

Brown & Wilson (2005), distinguished different categories of outsourcing - Selective and Full Outsourcing, Tactical and Strategic Outsourcing and Transformational Outsourcing.

1. Selective and Full Outsourcing

Outsourcing allows an institution to concentrate on its core competencies. Outsourcing can be classified into two categories depending on the type of human capital and the type of work function. The first type of outsourcing is called selective outsourcing and is classified as a tactical move to outsource unwanted functions within an organization. The second type of outsourcing is more extensive and is called strategic-shift outsourcing, which focuses on

Bringing in highly demanded specialists that are limited in supply. Selective outsourcing enables service provider companies to reduce costs while enabling the institution to give attention Elsewhere while strategic-shift outsourcing also conquerors the same goals as selective outsourcing, but also seeks to create a mutually beneficial relationship due to the sheer size of the contract agreement and its implications for both parties. Outsourcing allows a business to focus on its primary mission, not on managing an auxiliary service that may compete with private-sector alternatives and not provide a real return for institutional dollars (Bartem & Sherry, 2001).

2. Tactical and Strategic Outsourcing

Tactical outsourcing is used by organizations to address specific problems being experienced by organization viz. a lack of financial resources to make capital investments, inadequate in-house managerial competence, or a desire to downsize, etc. Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. It results in visible benefits in the form of enhanced cash savings, minimizing the need for future investments and resolving staffing issues. Besides, it also involves execution of a business process following the existing rules.

Tactical outsourcing may involve of outsourcing non-core activities to enable decision makers to acquire industry specific capabilities by collaborating with a chosen vendor (Hussey & Jenster, 2003). This is a common method used by large mature corporations for handling high-volume repetitive tasks. This is used for processes such as payroll transactions, HR administration, and procurement. Strategic outsourcing is used as a process of outlining the organization as new and would result more free time for decision makers to focus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best in class integrated service providers.

3. Transformational Outsourcing

Transformational outsourcing is commonly used to redefine the business aware to the dynamism in customer and supplier behavior (Lindner, 2004). It enables an institution to retain leadership Position, build sustainable competitive advantage, and generate highest value for an organization. Some issues addressed by transformational outsourcing are good governance, maturity of business process knowledge, and properly and in-depth drafted and monitored service level agreements (SLAs). The levels of risk in strategic and transformational outsourcing are much more than tactical form, but are commonly shared with the outsourcing partner. Tested

Risk mitigation plans, high-security levels, mature project management skills and proven business continuity plans need to be put in place before an arrangement can begin in this direction.

2.1.4. Advantages and Disadvantages of Outsourcing

2.1.4.1. Advantages of Outsourcing

Cost Saving: This is the lowering of the overall cost of the service to the business. This involves the score defining quality levels, repulsing, renegotiations, cost restructuring, access to lower cost economies through off showing cold labor arbitrage (Zua, 2014). Organizations outsource noncore activities to avoid certain types of costs. Costs such as high energy costs, taxes, and costs associated with benefits in labor unions and avoidance of regulations motivates management to outsource (Caroline, 2011).

Reduces bureaucratic complexity: Outsourcing potentially reduces bureaucratic complexity. Administrative demands of organizing transactions and excessive bureaucratic costs associated with governance oversight reduce firm performance. In turn, these demands distract managerial attention from important sources of innovation and growth and add to the costs of internalization. Thus outsourcing helps firms align competing priorities, focus management attention on growth and innovation opportunities, and target resources to those tasks firms do best (Holcomb &Hitt, 2007).

Capital exchange: Caroline, 2011 mentioned that capital exchanged for internal factors of production (e.g. facilities, equipment, management and production personnel, etc.) when assets are transferred or sold to firms in markets; with outsourcing, firms can reduce or eliminate longer-term capital outlays to fund future investments related to the outsourced function.

Specialization: Lysons and Gillingham, (2003) say that, outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise.

Production economies: Outsourcing improves production economies (Holcomb &Hitt, 2007; Bryce&Useem, 1998) Because decisions about price and production are made before actual demand is observed, as transaction volumes vary, firms may find it difficult to make optimal use of available capacity or may ration production when existing production scale limits activity. Moreover, Outsourcing allows firms to avoid or reduce rationing and meet production requirements by relying on intermediate markets as demand varies over time; it also provides a

Mechanism for firms to reduce uncertainty, transfer risk, and share scale economies with specialized firms from these markets.

Labor wage: According to Caroline, 2011, researcher was stated one of the biggest expenses that Organizations have is labor, expenses such as bonuses, office space, support personnel, computers and Software licenses, internet access, training, recruiting and retaining employees and drinks that a salaried employee gets add to the overhead costs. Organizations are turning to outsourcing rather than adding their headcount (Strauss, 2004) Apart from actual cost savings; the organization can achieve a leaner balance sheet by divesting assets that would have otherwise been required in-house. This can have a favorable impact on the financial stability of the company and its return on assets ratio.

Access to Innovation: Zua, (2014) mentioned in his research there are opportunities to have access to Capabilities of suppliers into products and services of the customer organization rather than attempt to replicate the capabilities of a supply network.

2.1.4.2. Disadvantages of Outsourcing

Work quality is not guaranteed

When you agree to have an outsourcing company acquire jobs for your business, you sign a contract which essentially turns your management control over to that company. The outsourcing company may not have the same quality standards, work ethic, or drive that you and your in-house employees have within your own company Grauman and Paul (2005).

The loss of confidentiality

Outsourcing jobs means business owners frequently find themselves having to forego a portion of their privacy. There may be a need to entrust confidential information such as login details and client information (Moszewska, 2004).

The inability to monitor your workers regularly

Since workers are in different parts of the world, it can be difficult to monitor their activities. This is particularly true for workers in different time zones (Moszewska, 2004).

The impact on employee morale

When companies outsource jobs, existing in-house employees may feel that their jobs are also at risk and may eventually be eliminated. This interpretation could eventually lead to decreased company loyalty (Moszewska 2004).

2.1.5. 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 equipment, 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). 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.

1. **Reduce costs:** One of the reasons why organizations choose outsource is to reduce costs. Every organization's primary goal is to lower costs. Outsourcing provides a more efficient way in controlling costs. Additional costs per employee such as salary, overhead, training and other costs. Outsourcing eliminates costs such as future training of employees, current training, recruitment, payroll and benefits. According to Baily *et al*, (2005), David (1997) and Lyson and Farrington, (2006) Reduction in operation costs, most organization turn to outsourcing with the view of reducing the costs associated with the service being provided.

According to Altekar, (2006) the primary reason for outsourcing by enterprises is the cost factor that is significantly less than in sourcing what with the managing of the personnel, infrastructure and the technology.

2. **Administrative task:** Outsourcing has been acknowledged as one of the ways to free up a company from routine administration tasks. The organization can focus on its core competencies. This allows them to dedicate their time and strengths to the benefit of the organization. Outsourcing involves bringing in specialists who can do the job faster (Mr. A. Pahirathan, 2017).

3. **Core competence:** Departments that are uncontrolled or poorly managed are prime motivators for Outsourcing (Bucki, 2013). This will also help organizations to focus on core competencies and invest the money in other areas. Outsourcing tends to promote competition among suppliers thereby ensuring high quality products and services (Kotabe, 1990).

4. **Technology:** An organization may choose to outsource because they may not be able to keep up pace with the ever changing technology. (Quinn, 1999).
5. **Specialization:** Another reason may be that the organization is not very good at performing a particular task. Rather than attempting to improve on their performance the organization decides to outsource (Quinn, 1999). According to Baily *et al*, 2005 and Lyson and Farrington, (2006) External supplier has better capability; many organizations do outsourcing for the purpose of increasing quality service because the external providers perform better than the internal.
6. **Resources management:** The resources like financial material human physical become free and available for other important activities. And External suppliers have greater or more appropriate capacity than internal supplier particularly in financial resources and therefore do the job easier and deliver on time. Outsourcings do play in freeing the resource for other purpose. It entails an organization to stop allocating resources to a certain activity and entrusting that activity to third party (Baily *et al*, (2005) and Lyson and Farrington, (2006).
7. **Risk management:** According to Baily *et al*, (2005) and Lyson and Farrington, (2006) Reducing, or spreading, an approach to risk management for some types of risks to partner with an outsourcer who is better able to provide the mitigation.
8. **Lack of internal resource:** According to Baily *et al*, (2005) and Lyson and Farrington, (2006) the organization may seek for outsourcing because of lack internal resources like human and financial resources.
9. **Desire to focus more tightly on core business:** the idea goes back to the basic idea of division of labor and specialization in that organization can do better if it can concentrate on only few activities (Baily *et al*, (2005) and Lyson and Farrington, (2006).
10. **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 spent more time on strategic issues as market positioning and product development (Bragg,1998)

2.1.6. Organization Performance

Organization performance is a wide concept and an open question with limited research studies on definitions and measures. Organization performance is an important parameter mostly defined

As a dependent variable which seeks to produce variations of performance. Organization performance may be compared or measured in terms such as; production output, profitability, sales turnover, market share, and many other accounting ratios. Organization performance is the Extent to which the organization achieves a set of pre-determined targets that are in line with its mission. The most common performance drivers include: customer value, team performance, talent management, and strategic focus all which are achieved through, proper planning, evaluation, implementation and control. The critical success factors for organization performance Consist of access to right knowledge and skills, proper planning, innovation and flexibility. Organization performance measures consists of return on equity, profit, return on assets, market share while non-financial performance measures consist of corporate social responsibility, innovation, responsiveness and employee development. From the study of Gathungu and Mwangi, (2012), sensing the capabilities of the firm is useful in the identification and assessment of opportunities within the firm's environment through exploring technology, probing markets and listening to customers.

2.2. Empirical Review

Cost-Driven Outsourcing and Organizational Performance

The past few decades have witnessed a boom of outsourcing in which firms transfer their non-core business activities to third-party service providers. Functions that have seen substantial outsourcing include information technology management, support services, manufacturing, logistics, and customer support. The biggest motivation for such outsourcing has been to maintain a competitive edge by reducing costs and focusing on core competencies (Zhao, Xue & Zhang, 2014).

Today, outsourcing has become a strategic lever in the global economy and it is widely expected that this trend will continue in the near future. Kenyon and Meixell(2011) found out that outsourcing works better for international markets where labor and cost of doing business is lower. However, as Insinga and Werle (2000) point out, outsourcing at the operational level can easily lead to the development of dependencies that create unforeseen strategic vulnerabilities.

The fact that outsourcing can be strategic is in no doubt. However, the most important thing is a foremost recognition of the strategic value that outsourcing can generate to any organization if handled correctly. As Insinga and Werle (2000) note, the real risk is in losing the strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's operations. "At this

Level,” they point out, “the dominant success metric of outsourcing becomes lower cost, period.” (p. 58). They further argue that in order to avoid losing sight of the strategic intent, firms must Institutionalize a robust decision making process to govern the outsourcing relationship in such a way that hard-wires the operations to the strategic.

Hypothesis 1: Cost driven outsourcing significantly affects organizational performance

Quality-Driven Outsourcing and Organizational Performance

Quality: The term quality refers to totality or characteristics of goods and materials that satisfy the intended need at the lowest cost. It is fitness, merit and excellence. (Doubler, 1996). Providing high-quality service is a major concern for nearly any business. Quality of service can be a major factor when customers decide which business to use to solve their needs. Customers have certain expectations about the level of satisfaction they'll get from businesses they are participating and it's difficult to improve your quality of service if you don't have any input from your customers about how to improve. Thus, gathering customer feedback and using it to measure service quality should be a significant part of nearly any business's game plan. According to D'Aveni and Ravenscraft (1994), every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly. According to Muweesi, (2011) Successful implementation of an outsourcing strategy has been credited with helping to increase capacity, improve capacity, and improve quality. Personnel expenses were the primary reason behind outsourcing; however, it also improves operating efficiency. The growth in outsourcing practice has been contributed by the firms need for diverse and high quality services in order to survive and excel in the rapidly changing external environment (Kok & Richardson, 2003). Nevertheless, building strong outsourcing partnerships faces challenges as firms lack the know how to select their outsourcing vendors as well as poor management of outsourcing relationships (Golenaris *et al.*, 2003; Parker & Russel, 2004). Quality can be described as fitness for use. Quality in outsourcing contract exists when the contract serves its intended function and meets the objective of both parties. According to Lin and Lee (2005), competitive advantage of an organization lied in the provision of high service quality that excellent service quality not only enhance the organizational profitability but could create excellent performance for the organization.

Hypothesis 2: quality driven outsourcing significantly affects organizational performance

Focus-Driven Outsourcing and Organizational Performance

In the recent past, outsourcing strategy has been at the center of organizational development and change. In most cases, the process of organizational and structural change is preceded by radical changes which lay the ground work for business process reengineering. The current trends are moving towards the concept of virtual corporations founded on the relationships, co-operation and strategic business partnerships among several firms. The building of such relationships often begins with the identification and exploitation of the concept of core competences, in a manner that provides for new advantages to be obtained from specialization (Agndal & Nordin, 2009).

Additionally, the process must ensure that the customer receives value addition which is prior to the levels previously offered (Styles & Goddard, 2014). The unforeseen realities and complexities of competing in a global supply chain environment have made many organizations to focus on strategic renewal and creative solutions. These solutions are designed to manage and mitigate the risks associated with operating in today's dynamic marketplace including outsourcing of services (Buchanan, 2014).

In the past large organizations, both public and private, were able to achieve significant cost and differentiation advantages (Porter, 1980) through complex organizational structures, systems, and processes. However, a lot has changed and today, we see an increasing inclusion of outsourcing in the strategy of many organizations. A company will normally keep internal control over the processes that it deems both necessary and core, then outsources the processes that is deemed necessary but not core (Shekar, 2008).

Hypothesis 3: focus driven outsourcing significantly affects organizational performance

2.3. Conceptual Framework

According to Thomas, (2010), a conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Its aim is to assist a researcher to develop awareness and understanding of the situation under study and communicate the same in a broad perspective. It highlights the study variables and illustrates the underlying relationships (Thomas, 2010). This displays the inputs as independent variables and the output as dependent variables. Any changes in the input brought about by the way outsourcing process is carried out will have an effect on the outputs. The independent variables of the study are: Cost -driven, Quality-driven, and Focus-driven.

Outsourcing can be conceptualized as a process rather than an event. This process begins with the development of a strategic and financial business case for outsourcing. The crafting of the

Business case is followed by implementing the external sourcing model and ultimately managing the relationship with the provider (Benton, 2010).

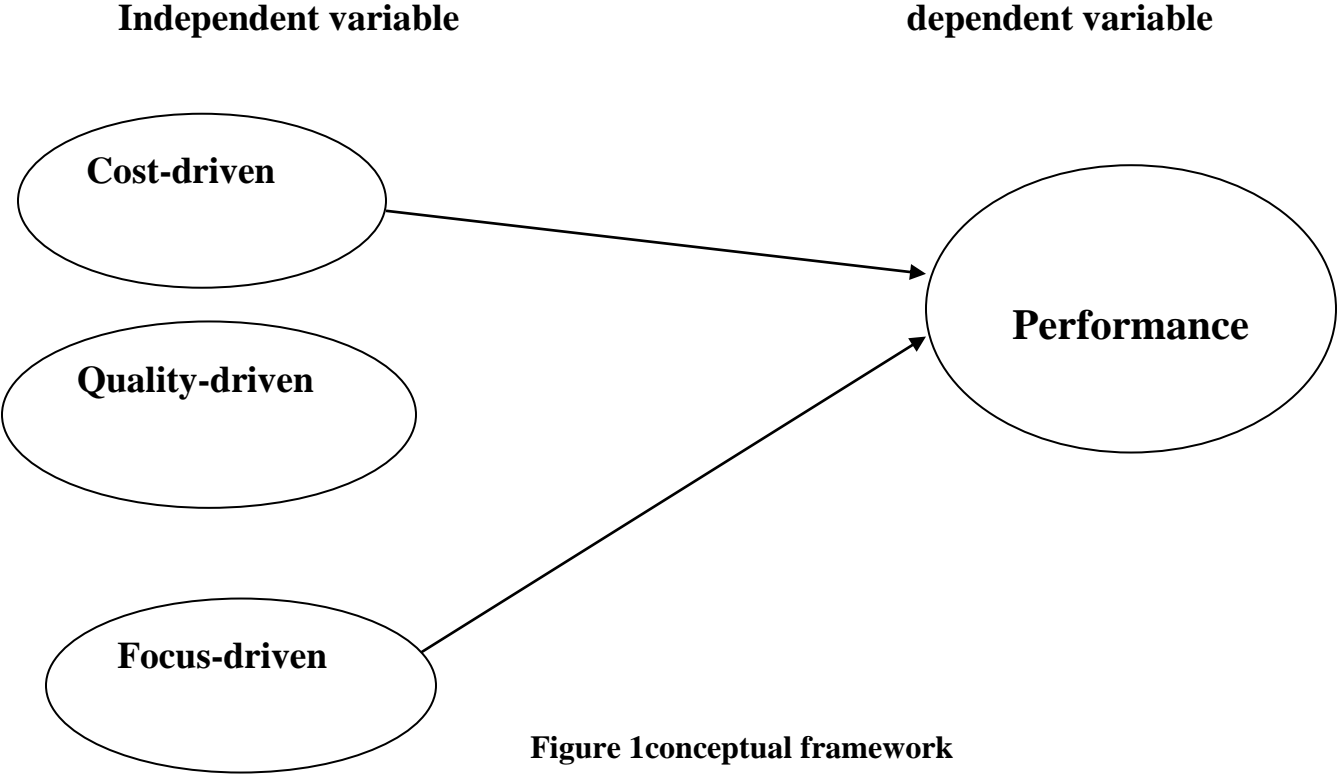


Figure 1conceptual framework

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with the methodology used by the researcher to investigate the effects of outsourcing employees on organizational performance in commercial bank of Ethiopia.

3.1. Research approach

In the study, quantitative research techniques and methods were used to provide the best understanding of a research problem. Quantitative designs were plans for carrying out research oriented towards quantification and are applied in order to describe current conditions and or to investigate the cause and effect relationships.

3.2. Research design

The researcher used descriptive and explanatory research design method in carrying out the study. The researcher used descriptive research design method in carrying out the study. Descriptive research design is preferred where the research aims at describing the features of a particular individual or group (Kothari, 2004). Explanatory research design gives attention for the study of relationship between variables. For that this research was undertaken to measure the effect of outsourcing employees on performance of the organization.

3.3. Population and Sample

3.3.1. Target Population

According to Zikmund (2010), a population is any complete group that shares some set of characteristic. Target population is the intended group for the study. The target population of this study was commercial bank of Ethiopia's 50 branches under East district managers the total population of the study in 2020, among CBE branches, 5 manager of service provider and 1 the whole branch manager. The total population for this research was 200.

3.3.2. Sample size

Sample size refers to the actual number of respondents that would be representative of the population under study (Blumberg et al., 2008). The size must be large and should bear some proportional relationship to the size of population from which it is drawn. The criteria used to determine the sample size were the level of precision, the level of confidence, the degree of variability in the attributes under study. The populations of these CBE selected branches found Under east, Addis Ababa district Bank of Ethiopia. The sample size was determined by using **Yamane's formula**. Provides a simplified formula to calculate sample sizes.

Therefore $n = N / (1 + Ne^2)$

N= population size 200/ (1+200(0.05²) =133

n= sample size

e =margin of error

Applying 5% error margin, the sample size for the study were 133 members of the target Population. Therefore, the study's sample size of 133 is fair enough to represent the target population of the study area.

3.4. Sampling technique

Sampling technique is a scientific or rather statistical method of selecting the sampling units that would offer the requisite estimates with their related margins of uncertainty. This was happened from the investigation of only part of the total population (often called sample) and not the whole population (Saunders *et al*, 2012). This study utilized purposive or judgmental sampling technique (which is a technique respondents are selected for a particular purpose) and also adopted in selecting management staff of commercial bank of Ethiopia's east district branches. While a proportionate weight is given to each category of managerial employees.

3.5. Data source and types

The study was undertaken based on the data that was collected from both primary and secondary sources of data that enable the researcher to meet the objectives of the study outlined at the beginning. In addition, the data collected through structured questionnaire closed ended questionnaire filled by Bank managers. Bank managers are assumed to have the necessary information about outsourcing adequately since they were the beneficiaries of the services

Directly. The key personnel were managers works CBE at east district areas because they were expected to have the detailed information about the subject matter.

As far as secondary data was concerned, relevant data were collected from the organization, books and literatures, websites (internet) and other available sources and this was quoted where necessary and using to draw deductions as per the study.

3.6. Data collection instrument

Questionnaires were the data collection instruments. Questionnaires are the primary sources of data. To obtain information on the research problem, the study used two data collection methods that is, both primary and secondary data collection methods. Primary data was collected through closed ended questionnaire. And secondary data also collected from the organization, books, literature and website (Internet). The researcher used questionnaires adopting a standardized questionnaire in the study Kothari (2004). Based on the research objective, questionnaires were distributed to bank managers to get information about the effects of outsourcing employees on organizational performance at CBE.

Cost driven outsourcing was measured 5 items adapted from to concentrating on banks core function, to reduce cost, to reduce workload, to improve service quality and customer satisfaction, to improve flexibility Baily *et al*, (2005).

Quality driven was measured 7 items adopted from Outsourcing enabled CBE the mechanisms for sharing service, CBE has improved its already existing services after outsourcing , Outsourcing enables CBE to obtain services that are more efficiently and timely, Services CBE obtained from the service providers has been very satisfactory after outsourcing, Outsource Service Provider visually appealing materials associated with the service, CBE is successful in assuring service quality of outsourced activities, CBE feel safe in the outsource Service Muweesi, (2011).

Focus driven outsourcing was measured 5 items adopted from Desire to focus more tightly on core business, TO Focus on strategy, the company needs to concentrate on its core function to remain competitive, the best way to concentrate on core function is to outsource the non-core functions, Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-the world competencies (Agndal & Nordin, 2009).

Performance was measured 6 items cost reduction, service quality; focus on core activities, market share, sales and profitability Gathungu and Mwangi, (2012).

3.7. Data Collection Methods

The researcher collects primary data by administering questionnaire and the questionnaire was distributed to the respondents and duration of three weeks was given to the respondent to fill the questionnaire. The questionnaires were consisting of two parts. Part one was prepared to gather general information about the respondent's age, gender, department, profession and the time of service giving. Part two was prepared to ask respondents to answer effects of outsourcing employees on organizational performance, based on items of outsourcing cost-driven, quality-driven, focus-driven and performance of outsourcing practices. Questions in part two were assessed by using a five point Likert scale from strongly disagree (1) to strongly agree (5).

3.8. Data analysis

The quantitative data was analyzed through descriptive statistics and inferential analysis by use of statistical package for social sciences (SPSS) version 20 software. Descriptive statistics provide a clear picture of the characteristics of sample units. Analysis of quantitative data from the questionnaire was involve coding, data entry and cleaning which was follow statistical rules and commands as well as measures like the mean, standard deviation, correlation and regression coefficients. The measurement of correlation coefficient was support the researcher to establish the existence or lack of existence of the direction as well as the strength of each dimension of the independent Variable with the Dependent variable while the regression Coefficients was assist in establishing the actual statistical contribution of each of the dimensions of the Independent Variable to the Dependent Variable.

Data analyzed descriptively was presented in tables because they gave a systematic record of analysis. Both Correlation and Multiple Regression analysis was used to test the relationship between the independent variables and the dependent variables.

3.9. Validity and Reliability of the Instrument

3.9.1. Validity

Validity is the degree to know the measuring instrument or materials actually measure the problem or not. It refers to the issue of whether the data collected instrument has a true representation of what is being studied or researched. To ensure content validity, the researcher used questionnaires adopting a standardized questionnaire in the study Kothari (2004).

3.9.2. Reliability

Reliability refers to the extent to which a research instrument brings out consistent results or data after repeated trials (Mugenda & Mugenda, 2003). The most common reliability is. The Cronbach's Alpha which gives an estimation of internal consistency by determining how all items on a test relate to all other items and to the total test. Reliability is given as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. As multiple items in all constructs were used, the internal consistency /reliability of the variables used to measure the Effects of outsourcing Employees on Organizational performance is presented in the following table.

Table 1.Reliability Analysis

Variables	Cronbach's Alpha	No. of items
Cost-driven	.844	5
Quality -driven	.881	7
Focus-driven	.862	5
Performance	.827	6
Average Cronbach's Alpha	.918	23

Source: SPSS reliability result output

As indicated in the Table 1.1 above, Cronbach's Alpha for each value was established by the SPSS application and gauged against each other at a cut off value of 0.7 which is acceptable according to Cooper and Schindler (2008). Cronbach's alpha values of 0.7 and above is considered Adequate, the average Cronbach's Alpha value was 0.918 as shown in table 1.1

Above meaning the items under each variable were consistent. The highest alpha value was 0.881 and it was in the case of quality-driven, whereas the lowest was for performance with the alpha value of 0.827. The measurement scale for performance is adopted from the standard measurement of affective, continuous and normative commitment of Meyer, *et.al*, (1993). While researchers generally consider values above 0.7 to be satisfactory, in social sciences values as low as 0.5 are reported to be acceptable (Jha, 2011). Similar performance studies conducted in North America as reported by Meyer *et al.* (2002) tend to show lower correlation rates of less than 0.6. Moreover, constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.5 thus the study was reliable (Davis, 1964) and As per George and Mallery (2003), the following rules of thumb is considered regarding reliability coefficient: —Alpha > .9 – Excellent, Alpha > .8 – Good, Alpha > .7 – Acceptable, Alpha > .6 – Questionable but reasonably acceptable, Alpha > .5 – Poor, and Alpha < .5 – Unacceptable reliability test and hence it was supposed that the scales used in this study were reliable to capture the constructs.

3.9.3. Ethical Considerations

The ethical issues are considered by informing the respondents regarding the background of the study, including the importance of the data to be gathering from them and issues of confidentiality, by ensuring the respondents that all of the information in this study was solely used for academic purposes only.

CHAPTER FOUR

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 managers through questionnaires.

4.1. Response Rate and Background of Respondents

In order to address the research questions, 133 questionnaires were prepared and distributed to CBE managers, out of these questionnaires 121(91%) were filled and returned, the rest 12(9%) questionnaires could not be used for analyses since they were incomplete.

4.1.1. Sex of Respondent

Table 2. Gender of Respondents

Gender		Frequency	Percent	Valid Percent
Valid	male	89	73.6	73.6
	Female	32	26.4	26.4
	Total	121	100.0	100.

Source: Survey Questionnaire, 2020

As depicted above in the Table 2, 89 (73.6%) of the respondents were males and the rest 32 (26.4%) were females. This shows that the major respondent was dominated by male.

4.1.2. Ages of Respondent

Table 3. Age of respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
21-30years	44	36.4	36.4	36.4
31-40years	64	52.9	52.9	89.3
41-50years	10	8.3	8.3	97.5
Above 50years	3	2.5	2.5	100.0
Total	121	100.0	100.0	

Source: Survey Questionnaire, 2020

In relation with age distribution of respondent the majorities of the respondents (52.9%) were aged between 31 to 40 years followed by the age categories of 21 to 30 years, 41 to 50 years and above 50years with percentage scores of 36.4%, 8.3% and 2.5% respectively. This implies that about 108(89.3%) of the respondents are below 40 years of age.

4.1.3. Educational Background of the respondent

Table 4. Education level of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Bachelor's Degree	40	33.1	33.1	33.1
Masters	81	66.9	66.9	100.0
Total	121	100.0	100.0	

Source: Survey Questionnaire, 2020

The majority of the respondent's educational status 81 (66.9%) MA/MSc, 40 (33.1%) BA and PhD 0 respondents involved in the provision of information through questionnaires. From these data, about 81 (66.9%) of the respondents had an academic qualification of MA/MSC. This implies that the Exchange has fairly educated employees who can easily understand the research

Objective and the current effects of outsourcing activities of the Exchange and provide reliable information to meet the research objective.

4.1.4. Respondent position of work

Table 5. Respondent Position of work

	Frequency	Percent	Valid Percent
Manager of internal controller	23	19.0	19.0
Manager of operation	26	21.5	21.5
Manager of business	30	24.8	24.8
Manager of customer service	11	9.1	9.1
Sales manager	4	3.3	3.3
The whole manager of branch	27	22.3	22.3
Total	121	100.0	100.0

Source: Survey Questionnaire, 2020

As indicated in the above Table 5, from the total of 121 respondents, the majority respondent 30(24.8%) were found manager of business position followed by manager of whole branch 27(22.3%), manager of operation 26(21.5%), manager of internal controller 23(19.0%), manager of customer service 11(9.1%) and 4(3.3%) were found managers of sales. Generally, from the data can conclude that, this study tried to cover respondents from different work position. This meant that most of the respondents were in positions that made them actively participate in the processes under study and would thus provide meaningful, valid and reliable information for the study since those group of work category directly and indirectly related with the current effects of outsource activity of the organization performance.

4.1.5. Respondents profession

Table 6. Respondents profession

	Frequency	Percent	Valid Percent
Business Administration	14	11.6	11.6
Management	32	26.4	26.4
Accounting	52	43.0	43.0
Economics	11	9.1	9.1
Accounting and Finance	6	5.0	5.0
Marketing and Sales man ship	6	5.0	5.0
Total	121	100.0	100.0

Source: Survey Questionnaire, 2020

As indicated in the above table 6 , respondent field profession, from the total of 121 respondent, the majority respondent or 52(43%) were found under the field of Accounting followed by Management 32(26.4%), Business Administration 14(11.6%), Economics 11(9.1%), Accounting and finance 6(5%), Marketing and sales man ship 6(5%). Generally, from the data one can conclude that, this study tried to cover respondents from different field profession. This meant that most of the respondents were in profession that made them actively participate in the processes under study and would thus provide meaningful, valid and reliable information for the study since those group of work category directly and indirectly related with the current effects of outsource activity of the organization performance.

4.1.6. Respondents Service Year

Table 7. Respondents' service year

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 4-10years	87	71.9	71.9	71.9
11-20years	25	20.7	20.7	92.6
21-30years	8	6.6	6.6	99.2
More than 30years	1	.8	.8	100.0
Total	121	100.0	100.0	

Source: Survey Questionnaire, 2020

As indicated in the above table 7, which shows respondent category related with service year at CBE, the majority respondent 87 (71.9%) have 4 to 10 year, 25 (20.7%), have 11 to 20 years, 8 (6.6%) have 21 to 30 years and 1 (0.8%) have more than 30 years. It can be concluded that data for this study was collected from least experienced to more experienced respondents and the majority have enough experience of the given outsource service. As a result, their responses can be reliable.

4.2. Descriptive Analysis

A descriptive analysis is the discipline of quantitatively describing the main features of a collection of information. The common methods that are used in describing a given data set include measures of central tendency and measures of dispersion. Hence, it was necessary to use This analysis in order to come up with the frequency distribution tables, percentages, mean and standard deviation.

4.2.1. Reasons to Outsourcing noncore function

Literature on the subject has identified potential reasons, and the bank has plenty of reasons for outsourcing its services. Here in the study the respondents were asked and presented to what extent outsourcing reasons the bank as compared to in-house sourcing.

1. What is the main reason to outsource non-core function of the CBE?

Table 8. Employee Response in the main reason to outsource non-core function of the CBE

Reasons	Strongly disagree		Disagree		neutral		Agree		Strongly agree		Mean	SD
	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%		
To concentrate on banks core function	4	3.3	2	1.7	16	13.2	47	38.8	52	43.0	4.17	.952
To reduce cost	6	5.0	11	9.1	23	19.0	47	38.8	34	28.1	3.76	1.111
To reduce workload	2	1.7	4	3.3	21	17.4	52	43.0	42	34.7	4.06	.897
To improve service quality and customer satisfaction	8	6.6	13	10.7	31	25.6	33	27.3	36	29.8	3.63	1.205
To improve flexibility	7	5.8	11	9.1	36	29.8	38	31.4	29	24.0	3.59	1.123

Source: Survey Questionnaire, 2020

The study required to first ascertain the main forces driving the company to incorporate outsourcing in its corporate strategy. The respondents were asked to, on a scale of 1 to 5; rank the reason why their company outsources. The responses were analyzed using descriptive statistics and classified in to five categories. Table 8 above summarized finding with regards to the stated reason as driving forces for outsourcing strategy. From table 8 on average, the respondents agreed that to concentrate on banks core function was major driver for outsourcing noncore function in the company (Mean=4.17). The respondents also stated that the company uses outsourcing as a strategic tool to reduce workload (Mean=4.06). According to the respondents the third reason to outsource noncore function of the bank was to reduce cost

(Mean=3.76). Therefore, the respondents placed the top of the drivers for outsourcing strategy .to improve Service quality and customer satisfaction and to improve flexibility. With a mean of (3.63, 3.59) respectively to outsource noncore function of the bank.

4.2.2. Cost-driven Outsourcing noncore function

As has been presented in the previous section, outsourcing has many reasons for the bank, however many reasons can also be experienced. Next we will look how the respondents state the level of cost-driven the bank has faced.

1. cost-driven outsourcing noncore function

Table 9. Employee Response in cost-driven outsourcing function

Items	Strongly disagree		Disagree		neutral		Agree		Strongly agree		Mean	SD
	frequency	%	frequency	%	frequency	%	Frequency	%	frequency	%		
Outsourcing has reduced costs (overhead and fixed)	9	7.4	6	5.0	21	17.4	54	44.6	31	25.6	3.76	1.118
Outsourcing enable CBE to obtain labor at a lower cost	8	6.6	11	9.1	31	25.6	43	35.5	28	23.1	3.60	1.137
Outsourcing contributes to improved performance through cost reduction	9	7.4	18	14.9	29	24.0	46	38.0	19	15.7	3.40	1.144
Outsourcing cost is lower than the cost of acquiring more resources to perform work internally	5	4.1	13	10.7	32	26.4	60	49.6	11	9.1	3.49	.950
The bank has able to reduce its operating costs related to noncore business function	2	1.7	13	10.7	31	25.6	55	45.5	20	16.5	3.64	.939

Regarding the first reason of cost reduction, majority of respondents representing 70.2% believed that Outsourcing has reduced costs (overheads and fixed) agree and strongly disagree respectively. Among the total respondents 17.4% of them believed neutral. While 12.4 % respondents believe outsourcing does not (agree) bring the Outsourcing has reduced costs (overheads and fixed). This can tell that outsourcing has reduced the overhead and operational costs in average terms. 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.

The second question that, most of the respondent 58.6% said that outsourcing enables CBE to obtain labor at a lower cost agree and strongly agree respectively. And others 25.6% of the respondent said neutral. On the contrary of the respondent 15.7% said that outsourcing enables CBE to obtain labor at a lower cost strongly disagree and disagree respectively. According to Caroline, 2011, researcher was stated one of the biggest expenses that organizations have is labor, expenses such as bonuses, office space, support personnel, computers and software licenses, internet access, training, recruiting and retaining employees and drinks that a salaried employee gets add to the overhead costs. Organizations are turning to outsourcing rather than adding their head count (Strauss, 2004) Apart from actual cost savings; the organization can achieve a leaner balance sheet by divesting assets that would have otherwise been required in-house. This can have a favorable impact on the financial stability of the company and its return on assets ratio.

The third question of Outsourcing contributes to improved performance through cost reduction, majority of respondents representing 53.7% believed agree and strongly agree respectively. Among the total respondents 24.0% of them believed neutral. While 22.3% respondents believe Outsourcing contributes to improved performance through cost reduction does not (agree). 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.

The fourth question that, most of the respondent 58.7% said that outsourcing cost is lower than the cost of acquiring more resources to perform work internally agree and strongly agree Respectively. And others 26.4% of the respondent said neutral. On the contrary of the respondent 14.8% said that outsourcing cost is lower than the cost of acquiring more resources to perform

Work internally strongly disagree and disagree respectively. According to Baily *et al*, (2005) and Lyson and Farrington, (2006) the organization may seek for outsourcing because of lack internal resources like human and financial resources.

Regarding to the bank has able to reduce its operating costs related to noncore business function, majority of respondents representing 62% believed that Outsourcing has reduced operating costs (overheads and fixed) agree and strongly agree respectively. Among the total respondents 25.6% of them believed neutral. While 12.4 % respondents believe outsourcing does not (agree) bring able to reduce its operating costs related to noncore business function. This can tell that outsourcing has reduced the overhead and operational costs in average terms. 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.

4.2.3. Quality-driven Outsourcing noncore function

As has been presented in the previous section, outsourcing has many reasons for the bank, however many reasons can also be experienced. Next we will look how the respondents state the level of quality-driven the bank has faced.

1. Quality-driven Outsourcing noncore function

Table 10. Employee Response in Quality-driven Outsourcing noncore function

Items	Strongly disagree		Disagree		neutral		Agree		Strongly agree		Mean	SD
	frequency	%	frequency	%	frequency	%	Frequency	%	frequency	%		
Outsourcing enabled CBE the mechanisms for sharing service	3	2.5	11	9.1	33	27.3	59	48.8	15	12.4	3.60	.909
CBE has improved its already existing services after outsourcing	8	6.6	12	9.9	40	33.1	49	40.5	12	9.9	3.37	1.018
Outsourcing enables CBE to obtain services that are more efficiently and timely	11	9.1	9	7.4	38	31.4	47	38.8	16	13.2	3.40	1.099
Services CBE obtained from the service provider has been very satisfactory after outsourcing	11	9.1	22	18.2	51	42.1	29	24.0	8	6.6	3.01	1.029
Outsource service provider visually appealing material associated with the service	3	2.5	22	18.2	49	40.5	37	30.6	10	8.3	3.24	.931
CBE is successful in assuring service quality of outsourced activities	10	8.3	25	20.7	44	36.4	34	28.1	8	6.6	3.04	1.044
CBE feel safe in the outsource services	12	9.9	26	21.5	39	32.2	35	28.9	9	7.4	3.02	1.099

Source: Survey Questionnaire, 2020

As we see from the above table, majority 61.2 % of the respondents agreed that outsourcing enabled CBE the mechanism for sharing service of CBE, while 11.6% of the respondents believed that there is no agree the mechanism for sharing service, the remaining 27.3% are on neutral. CBE management get more mechanism for sharing service focus on core activities and able to increase the accessibility of banking service by opening new branches in different part of the country.

From the above table, most of the respondent 50.4% said that CBE has improved its already existing services after Outsourcing agree and strongly agree respectively and others 33.1% of the respondent said neutral. On the contrary of the respondent 16.5% said that CBE has improved its already existing services after Outsourcing strongly disagree and disagree respectively.

As we see from the above table, majority 52 % of the respondents agreed that outsourcing on CBE to obtain services that are more efficiently and timely, while 16.5% of the respondents believed that there is no agree on CBE to obtain services that are more efficiently and timely, the remaining 31.4% are on neutral. 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.

From the above table, most of the respondent 42.1% said that neutral and others 30.6% of the respondent said agrees on CBE obtained from the service providers has been very satisfactory after outsourcing. On the contrary of the respondent 27.3% said that CBE obtained from the service providers has been very satisfactory after outsourcing. Strongly disagree and disagree respectively.

From the above table, most of the respondent 40.5% said that neutral and others 38.9% of the respondent said agrees on Outsource service provider visually appealing materials associated with the service. On the contrary of the respondent 20.7% said that Outsource service provider visually appealing materials associated with the service strongly disagree and disagree respectively.

As we see from the above table, majority 36.4% of the respondents' neutral CBE is successful in assuring service quality of outsourced activities, while 34.7% of the respondents believed that agree on CBE is successful in assuring service quality of outsourced activities, the remaining 29%

Are disagree with in the idea. Service Quality assuring was the primary reason while outsourcing the data shows us that the CBE successful with the service quality of service delivered.

As we see from the above table, majority 36.3% of the respondents agreed that CBE feel safe in the outsource service, while 32.2% of the respondents believed on neutral. The reaming 31.4%disagreed that CBE feel safe in the outsource service. Service of CBE feel safe in the outsource service primary reason while outsourcing the data shows us that the CBE successful with the service feel safe.

4.2.4. Focus-driven Outsourcing noncore function

As has been presented in the previous section, outsourcing has many reasons for the bank, however many reasons can also be experienced. Next we will look how the respondents state the level of focus-driven the bank has faced.

1. Focus-driven Outsourcing noncore function

Table 11. Employee Response in Focus-driven Outsourcing noncore function

Items	Strongly disagree		Disagree		neutral		Agree		Strongly agree		Mean	SD
	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%		
Desire to focus more tightly on core business	1	.8	6	5.0	18	14.9	61	50.4	35	28.9	4.02	.846
To focus on strategy	4	3.3	9	7.4	13	10.7	62	51.2	33	27.3	3.92	.988
The company needs to concentrate on its core functions to remain competitive	2	1.7	8	6.6	16	13.2	54	44.6	41	33.9	4.02	.944
The best way to concentrate on core function is to outsource the noncore function	4	3.3	9	7.4	35	28.9	49	40.5	24	19.8	3.66	.988
Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies	4	3.3	16	13.2	33	27.3	49	40.5	19	15.7	3.52	1.017

Source: Survey Questionnaire, 2020

The first question that, the above table, most of the respondent 79.3% agreed that Desire to focus more tightly on core business. And others 14.9% of the respondent said neutral. On the contrary of the respondent 5.8% disagreed that Desire to focus more tightly on core business strongly disagree and disagree respectively (Baily et al, 2005) and Lyson and Farrington, (2006) the idea goes back to the basic idea of division of labor and specialization in that organization can do better if it can concentrate on only few activities.

The second question that, the above table, majority 78.5% of the respondents agreed that to focus on strategy, while 10.7% of the respondents believed on neutral. The remaining 10.7% disagreed that to focus on strategy. This point is strengthening 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.

The third question that, the above table, most of the respondent 78.5% of the respondents agreed to concentrate on its core function to remain competitive. And others 13.2% of the respondent said neutral. On the contrary of the respondent 8.3% disagreed that to concentrate on its core function to remain competitive strongly disagree and disagree respectively (Bucki, 2013) ideas will also help organizations to focus on core competencies and invest the money in other areas.

The fourth question that, the above table, majority 60.3% of the respondents agreed that the best way to concentrate on core functions is to outsource the non-core function, while 28.9% of the respondents believed on neutral. The remaining 10.7% disagreed that the best way to concentrate on core functions is to outsource the non-core function. This point is strengthened 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.

The fifth question that, most of the respondent 56.2% of the respondents agreed on Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies. And others 27.3% of the respondent said neutral. On the contrary of the respondent 16.5% disagreed on Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies strongly disagree and disagree respectively 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.

4.2.5. Effects of outsourcing on the performance of the banks

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

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

1. Effects of outsourcing on the performance of the banks

Table 12. Employee Response in Effects of outsourcing on the performance of the banks

Items	Strongly disagree		Disagree		neutral		Agree		Strongly agree		Mean	SD
	frequency	%	frequency	%	frequency	%	Frequency	%	frequency	%		
Outsourcing has created better short term performance	-	-	9	7.4	43	35.5	54	44.6	15	12.4	3.62	.799
The performance of the bank is satisfactory	1	.8	13	10.7	39	32.2	56	46.3	12	9.9	3.54	.847
Organizational performance increased after outsourcing non-core business function	6	5.0	12	9.9	52	43.0	37	30.6	14	11.6	3.34	.979
We have markedly high market share	2	1.7	7	5.8	30	24.8	45	37.2	37	30.6	3.89	.964
Outsourcing non-core activities has led to increased profitability	4	3.3	8	6.6	42	34.7	47	38.8	20	16.5	3.59	.955
After outsourcing non-core activities the growth of the company has been steady and very satisfactory in terms of return on investment and sales	4	3.3	13	10.7	60	49.6	32	26.4	12	9.9	3.29	.908

Source: Survey Questionnaire, 2020

According to the data presented in table 12, majority 57% of the respondents agreed that Outsourcing has created better short term performance, while 35.5% of the respondents believed on neutral. The remaining 7.4% disagreed that Outsourcing has created better short term performance.

From the above table, most of the respondent 56.2% of the respondents agreed on the performance of the bank is satisfactory. And others 32.2% of the respondent said neutral. On the contrary of the respondent 11.5% disagreed on the performance of the bank is satisfactory strongly disagree and disagree respectively Grover *et al.*, (1996) identified outsourcing success as the benefits from outsourcing gained by a firm as a result of adopting an outsourcing strategy. As we see from the above table, majority 43.0% of the respondents believed on neutral, while 42.2% of the respondents agreed on organizational performance increased after outsourcing noncore business function. The remaining 14.9% disagreed on organizational performance increased after outsourcing noncore business function (Smith & McKeen, 2004) ideas, in order to improve organization performance; firms outsource others which have state of the art skills that are not currently available in the organization. They are therefore able to improve critical areas of the business which leads to improved organization performance. Also when non-critical business functions are outsourced the firm is able to focus on its core business which improves organization performance.

About 67.8% of the respondents agreed on markedly high market share. And others 24.8% of the respondent said neutral. On the contrary of the respondent 7.5% disagreed on markedly high market share strongly disagree and disagree respectively. Organization performance may be compared or measured in terms such as; production output, profitability, sales turnover, market share, and many other accounting ratios. Organization performance is the extent to which the organization achieves a set of pre-determined targets that are in line with its mission.

As we see from the above table, majority 55.3% of the respondents agreed on outsourcing non-core activities has led to increased profitability, while 34.7% of the respondents believed on neutral. The remaining 9.9% disagreed on outsourcing non-core activities has led to increased profitability. Organization performance may be compared or measured in terms such as; production output, profitability, sales turnover, market share, and many other accounting ratios. Organization performance is the extent to which the organization achieves a set of pre-determined targets that are in line with its mission.

Majority of the respondent 49.6% said neutral.36.3% of the respondents agreed on after outsourcing non-core activities the growth of the company has been steady and very satisfactory in terms of return on investment and sales. On the contrary of the respondent 14% disagreed on after outsourcing non-core activities the growth of the company has been steady and very satisfactory in terms of return on investment and sales strongly disagree and disagree respectively. The findings of this research are concurrent with Smith and Mc Keen, (2004), that in order to improve organization performance, firms outsource to others who have state of the art skills that are not currently available in the organization. They are therefore able to improve critical areas of the business which leads to improved organization performance. Also when non-critical business functions are outsourced the firm is able to focus on its core business which improves organization performance.

4.3. Correlations analysis

Correlation analysis studies the joint variation of two or more variables for determining the amount of correlation between two or more variables (Kothari 2004). The term correlation refers to the strength of the relationship between two or more variables with coefficient ranging from -1.00 to +1.00 where -1.00 is a perfect negative correlation, +1.00 is a perfect positive correlation and 0.00 means there is no relationship between variables being tested (Kothari 2004). Pearson's coefficient of correlation is the most adopted way of measuring the extent of relationship between various given variables.

Table 13: illustrate the correlation matrix among the study variables. Correlation was used to explore the relationship among the group of the study variables. Since the independent variables were measuring the same dependent variable, it was expected that there existed some association between the predictor variables even if the relationship is significant.

Table 13. Correlation between the variables

		cost	focus	quality	performance
Cost	Pearson Correlation	1	.242**	.145	.137
	Sig. (2-tailed)		.008	.113	.134
	N	121	121	121	121
Focus	Pearson Correlation	.242**	1	.312**	.278**
	Sig. (2-tailed)	.008		.000	.002
	N	121	121	121	121
Quality	Pearson Correlation	.145	.312**	1	.375**
	Sig. (2-tailed)	.113	.000		.000
	N	121	121	121	121
performance	Pearson Correlation	.137	.278**	.375**	1
	Sig. (2-tailed)	.134	.002	.000	
	N	121	121	121	121

** Correlation is significant at 0.01 levels (2- tailed)

From the above table, the Pearson correlation coefficient shows that there is positive and significant relationship between organization performance and focus - driven outsourcing ($r = .278$, $P < .01$), and between organization performance and quality- driven outsourcing ($r = .375$, $p < 0.01$). However, since $p > .05$ there is no significant correlation between cost- driven outsourcing and organization performance.

4.4. Regression Analysis results

This study utilized multiple linear regression analysis to examine the impact of the predictor variables (cost-driven, focus-driven and quality-driven outsourcing) on the dependent variable. (Organization performance)

4.4.1. Model Summary

Table 14. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.415 ^a	.172	.151	.780

a. Predictors: (Constant),outsourcing cost-driven, focus-driven and quality-driven

As shown in the above table 14, the value of adjusted R-squared which is known as the coefficient of determination was indicates .172 that the independent or predictor variable (cost, Quality and focus) jointly explained 17.2% of variance in performance of the organization.

That the remaining 82.8% of the variation in the performance of the bank is satisfactory could be accounted for by other factors not considered in this study. Since the study is concentrated on Noncore business function which is outsourced only but performance will be highly affected by the core business function and noncore business function which is not outsourced. Beside this indicates that further research might be needed.

4.4.2. Analysis of variance (ANOVA)

Analysis of variance (ANOVA) was done to establish the fitness of the model used.

The ANOVA table shows that that the independent variables (cost, quality and focus) jointly are significant predictors of performance ($F(3,117) = 8.104$, $P < 0.05$).

This means that the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

Table 15. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.811	3	4.937	8.104	.000 ^a
	Residual	71.272	117	.609		
	Total	86.083	120			

a. Predictors: (Constant), cost-driven, focus-driven and quality driven,

b. Dependent Variable: performance

Table 16. Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.834	.402		4.562	.000		
	costs	.039	.066	.051	.585	.560	.936	1.068
	quality	.263	.074	.316	3.557	.001	.897	1.114
	focus	.167	.091	.167	1.847	.067	.863	1.159

According to the above Table 16, only quality driven outsourcing has a significant impact on performance ($\beta = .263$, $t = 3.557$, $p < 0.05$). This supports hypothesis 2.

However, since significant value $p > .05$ cost driven and focus driven outsourcing do not significantly predict performance. These rejects hypothesis 1 and 3.

4.5. Interpretation and discussion

According to the above findings cost-driven and focus-driven outsourcing are not found to predict organizational performance rejecting hypotheses 1 and 3. Only hypothesis 2 is accepted indicating quality-driven outsourcing predicts organizational performance. This finding is also supported by Felix and Shale (2016), on their studies of the effects of outsourcing on organizational performance in manufacturing sector in Kenya and This finding also agreed with Tan (1999), on his study indicates that an enterprise with improved service quality would relatively present more significant effect on performance and According to Lin and Lee (2000), on their studies Customer perceptions of e-service quality in online shopping. Competitive advantage of an organization lied in the provision of high service quality that excellent service quality service quality not only enhance the organizational profitability but could create excellent performance for the organization and Asiamah yeboah, (2013) on his study to examined the relationship between outsourcing and organizational performance in the Banking sector of the economy of Ghana and Tewodros Tenkir(2017), the effect of outsourcing noncore business function on company's performance and Ahmed Seid,(2019),effects of outsourcing Noncore business activities on organizational performance in Ethiopian Commodity Exchange.

The reason behind the rejection of the two hypotheses may be due to the service provided by the outsource company are non-core business function which effect is non-significant on the overall organizational performance of CBE. Since CBE organizational performance is highly dependent on service provided on the area of the core business function. Beside the two organization these means the outsource company and CBE has their own cost reduction platform designed towards the achievements of their organizational objective. Hence cost reduction between the two organizations might not be significant affecting the overall organizational performance of CBE. This finding also agreed with (Dr Asiamah Yeboa, 2013), a firm need to consider several factors that may influence its financial performance through outsourcing in deciding whether or not to outsource.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

The general objective of the study was to assess the effect of outsourcing employees on organizational performance in Commercial Bank of Ethiopia. This chapter discusses a summary of major findings obtained during the study. The findings were related to the research objectives and questions, the researcher's general conclusion about the results and recommendations based on the research objectives.

5.1 Summary of Major Findings

5.1.1. Respondent Demographic Summary

The major findings with regards to the demographic and general perception questions of the respondent indicates that from the total sample of the respondent 73.6% were males and 26.4% were female. A majority number of 52.9% were between the age ranges of 31 to 40 years. A majority of respondents 66.9% were Master's holders. Majority numbers of 24.8% were Manager of business. Majority numbers of 43% were Accountant and from the total respondent 71.9 % served for 4 to 10 years.

5.1.2. The main reason to outsource noncore function the CBE

From the study findings, 81.8% of the respondent confirmed that major driver for outsourcing non-core business functions in the company is to concentrating on banks core function with mean score value of 4.17. And also respondents relatively ranked the stated five main reasons to outsource non-core business functions. Accordingly, to reduce workload, to reduce cost, to improve service quality and customer satisfaction and to improve flexibility, with the mean score of 4.06, 3.76, 3.63, 3.59 which describe the highest to the lowest reasons for outsourcing of noncore business functions by the bank respectively.

5.1.3. Employees attitude toward cost, quality and focus driven outsource noncore function in the CBE

Result on perception of respondents on outsourcing noncore business functions on Cost-driven exposed that 70.2% of the respondent agreed that outsourcing has reduced costs (overheads and

Fixed) non-core business functions of the bank. Besides to this, 42.1% of the respondent's neutral that services CBE obtained from the service provider have been very satisfactory after outsourcing noncore business functions on quality-driven. In addition to this, 79.3% of the respondents agreed that desire to focus more tightly on core business.

5.1.4. Effects of outsourcing on the performance of the bank

From the study findings, 43% the respondent neutral that organizational performance increased after outsourcing noncore business function. Besides to this, 16.5% of the respondents disagreed that after outsourcing noncore activities has been steady and very satisfactory in terms of return on investment and sales. In addition to this, 67.8% of the respondents agreed on markedly high market share. The data collected also exposed that still there is a solution for obtaining committed outsourced staffs.

The Pearson correlation coefficient shows that there is positive and significant relationship between organization performance and focus - driven outsourcing ($r = .278$, $P < 0.01$), and between organization performance and quality- driven outsourcing ($r = .375$, $p < 0.01$). However, since $p > .05$ there is no significant correlation between cost- driven outsourcing and organization performance.

As per the regression analysis only quality driven outsourcing has a significant impact on performance ($\beta = .263$, $t = 3.557$, $p < 0.05$). This supports hypothesis 2.

However, since significant value $p > .05$ cost driven and focus driven outsourcing do not significantly predict performance. These rejects hypothesis 1 and 3.

5.2. Conclusion

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

- As per the finding on the composite mean scores of the scales of the independent variables, namely cost-driven, quality-driven and focus-driven the researcher conclude that outsourcing non-core business activity enable the Exchange to reduce cost, to ensure service quality and to focus on strategy. Though the effect of the independent variables on organizational performance is different and categorized under moderate level, focus-driven effect on organizational performance is relatively high.
- As per the analyses result, the researcher also concludes that, though all of the dimensions of outsourcing non-core business practices only quality driven outsourcing has a significant impact on performance ($\beta = .263$, $t = 3.557$, $p < 0.05$). This supports hypothesis 2. However, since significant value $p > .05$ cost driven and focus driven outsourcing do not significantly predict performance. These rejects hypothesis 1 and 3.
- Moreover, the results further infer assume that of all the predictors considered in this study quality-driven the most to the performance of the bank is satisfactory significant followed by cost as implicated by their larger coefficients.

5.3. Recommendation

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

- ❖ Based on the first objective on cost-driven, organizations should not expect guaranteed cost reduction in all the year marked branches. Even though respondents agreed there was cost reduction, this was only moderate in some branches. Therefore, CBE should not outsource an activity fully until they have confirmed beyond doubt that the service provider is capable of handling the activity. The study finding show that cost-driven has insignificant influence on organization performance. Organizations should never hand over all the responsibilities to service providers.
- ❖ Based on the second objective on quality-driven, it turned out that it was very difficult to measure quality. It is therefore recommended that organization should engage the service provider on the quality standards which are expected before entering into the contract.
- ❖ Based on the third objective on focus-driven and in line with the ever changing focus-driven it is believed that organization operations will continue to become more and more complex and challenging. It is therefore recommended that when outsourcing organizations should select the service provider on the basis of consistent core function and managerial capabilities. The study finding show that focus-driven has insignificant influence on organization performance. Organizations should never hand over all the responsibilities to service providers.
- ❖ Based on the study findings, the researcher recommends that: organizations should outsource with a clear picture in mind as to why they want to outsource. Research should be carried out on procedures which can be used to measure outsourcing performance with more emphasis on Key Performance Indicators (KPI). More research is also needed to evaluate and analyze the quality associated with outsourcing arrangements as most outsourcing contracts are full of conflicts and some of them end prematurely.
- ❖ Lastly, since the current research was carried out in CBE, more research needs to be done in other areas in order to compare the results.

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APENDIX
Addis Ababa University
School of Commerce
Department of Human Resource management
School of Graduate Study
Questionnaire will be fill by Managerial Employees found in different
Department

Dear Respondents:

My name is Yanit T/giorgise. I am a Post graduate student of MBA of Commerce University. Your Bank has been outsourcing most of its non-core functions, especially the non-clerical work areas. As a result, I wish to conduct a study on your bank on the effects of outsourcing employees on organizational performance information given is purely needed for academic purposes. Therefore, you will be treated with most confidentiality. I request you to spend a few minutes and answer this questionnaire. Your cooperation will be highly appreciated.

Part One: Demographic Characteristics of Respondents

1. Gender: Male Female

2. Age: 21-30years 31-40 years 41-50 years

Above 50 years

3. Educational Background: Degree masters PhD

4. a) What position do you work?

b) What is your profession?

c) How long have you been in CBE?.....

Part II

INSTRUCTION: Assessment of outsourcing practices question.

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. What is the main reason to outsource noncore function of the CBE?

no	Reasons	5	4	3	2	1
5.1	To concentrating on banks core function					
5.2	To reduce cost					
5.3	To reduce workload					
5.4	To improve service quality and customer satisfaction					
5.5	To improves flexibility					

Part III

INSTRUCTION: List of items that are believed to measure variables of the study is given below. Please indicate your degree of agreement by putting an “√” mark on appropriate boxes whereby 5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = strongly Disagree

6. Please indicate the degree to which you agree with the following statements

no	COST-DRIVEN OUTSOURCING	5	4	3	2	1
6.1	Outsourcing has reduced costs (overheads and fixed)					
6.2	Outsourcing enable CBE to obtain labor at a lowest cost					
6.3	Outsourcing Contributes to improved performance. through cost reduction					
6.4	Outsourcing cost is lower than the cost of acquiring more resources to perform work internally					
6.5	The bank has able to reduce its operating costs related to noncore business function					
	QUALITY-DRIVEN OUTSOURCING					
6.6	Outsourcing enabled CBE the mechanisms For sharing service.					

6.7	CBE has improved its already existing services after outsourcing					
6.8	Outsourcing enables CBE to obtain services that are more efficiently and timely					
6.9	Services CBE obtained from the service providers has been very satisfactory after outsourcing					
6.10	Outsource Service Provider visually appealing materials associated with the service					
6.11	CBE is successful in assuring service quality of outsourced activities					
6.12	CBE feel safe in the outsource Service					
FOCUS-DRIVEN OUTSOURCING						
6.13	Desire to focus more tightly on core business					
6.14	TO Focus on strategy					
6.15	The company needs to concentrate on its core function to remain competitive					
6.16	The best way to concentrate on core function is to outsource the non-core functions					
6.17	Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-the world competencies					

7. The effects of outsourcing on the performance of the Banks?

Please indicate your degree of agreement by putting an “√” mark on appropriate boxes whereby 5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = strongly Disagree

How do you evaluate how outsourcing noncore business functions affect organizational performance in terms of (cost reduction, service quality, and focus on core activities, market share, sales and profitability)based on five points rating scale stipulated here below?

no	effects of outsourcing on the performance of the Banks	5	4	3	2	1
7.1	Outsourcing has created better short term performance					
7.2	The performance of the bank is satisfactory					
7.3	Organizational performance increased after Outsourcing noncore business functions					
7.4	We have a markedly high market share					
7.5	Outsourcing non- core activities has led to increased profitability					
7.6	After outsourcing non-core activities the growth of the company has been steady and very satisfactory in terms of return on investment and sales.					