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SCHOOL OF COMMERCE

**Challenges and Prospects of Outsourcing Practise
In Commercial Bank of Ethiopia**

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*Thesis Submitted to School of Graduate Studies of Addis Ababa
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Addis Ababa, Ethiopia

Statement of Certification

This is to certify that Betelhem Mekuria carried out her research work on the topic entitled “Challenges and Prospects of Outsourcing Practice in Commercial Bank of Ethiopia” is her original work and is suitable for submission for the award of Master of Art Degree in Logistics and Supply Chain Management.

Advisor

Dr. Mengistu Bogale

Declaration

I the undersigned, declare that this thesis entitled „Challenges and Prospects of Outsourcing Practice in Commercial Bank of Ethiopia“ is my original work and has not been presented for a degree in any other University, and that all sources of materials used for the thesis have been duly acknowledged.

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Date of Submission _____

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List of Abbreviations

CBE	Commercial Bank of Ethiopia
CN	Commercial Nominees
BPO	Business Process Outsourcing
OMO	Outsourcing Management Office
SLA	Service Level Agreement

Abstract

The purpose of this research is to assess the challenges and prospects of outsourcing the non-core activities in commercial bank of Ethiopia. The study areas were CBE branches under east Addis district and the outsourcing administrative office. The research is a descriptive study applying both quantitative and qualitative approach in which questioner was collected across a population through simple random sampling and uses descriptive statistics for the data analysis.

The finding of the study shows that outsourced service assist commercial bank of Ethiopia to focus more on core functions and strategic areas, to save management time and expand its branch assertively. On the other side, difficult to measure service quality, low employee belongingness and loss of control were the major challenges of the bank due to outsourcing. Finally based on the finding, the researcher recommended that monitoring and evaluation system need to be put in place for timely corrective action before time elapses and rectification becomes so difficult. When it is used in a calculated and well-designed way, outsourcing could bring lots of benefits to the client organization. If applied without proper assessment of the capacities of service providers, it may involve irreparable damages in the short-range and could draw lots of risks that may disturb time-honoured organizational culture. Hence, any form of outsourcing is likely called for maximizing benefits and minimizing risks.

Key Words

Challenges of Outsourcing, Benefits of outsourcing, Employees attitude

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

In recent years outsourcing has become a major aspect in organizations performance and can no longer be ignored .Since the Industrial Revolution, companies have been concerned with how they can exploit their competitive advantage to increase their markets and their profits (Handfield, 2006). Firms have sought improved performance by outsourcing activities not considered a core competency of the business. The outsourcing of a number of services ranging from cleaning, logistics and compound maintenance among others has become a significant force in global outsourcing trend services, yet there exists some questions about the degree to which outsourcing results in a positive outcome and the conditions supporting it. Although many firms outsource to reduce costs, they often fail to do so and may actually increase if not handled properly (Handfield, 2006).

Outsourcing has become a strategic human resource approach in our current competitive business environment. Companies involved in the practice need to stick to their core competencies and go for strategic outsourcing to reduce cost and become more effective in their customer service. A company's business success could be determined on how well it manages its outsourcing relationship. In general, organizations outsource to achieve cost reductions and/or to be able to focus on their core business. They also resort to outsourcing as a way to achieve more efficient, effective and competent functions in their processes (William, 1999).

Outsourcing is understood as the contracting out of a business process to a third-party, with participation in a separate organizational unit, or without participation. There have been many reasons for outsourcing selected in the literature, but the first position extends to striving to reduce operating costs. When a range of activities are outsourced, organizational problems can be gotten rid, and the core business can be concentrated on (Greaver, 2013).

Outsourcing gained momentum in the 1970s, when large corporations were under performing. This trend became even more pronounced in the early 1980s with the onset of global recession. In fact, the 1980s witnessed a change of direction in business strategy thinking namely, focusing on fewer activities. The above changes forced the corporate

managers to re-look at the concept of vertical integration and self-sufficiency. This change in outlook led to many changes in the way the corporations looked at their business. They divested the peripheral or supplementary business in favour of the core business and became more de-integrated by increasingly outsourcing their requirements for non-core and non-critical components and services. By the 1990s, the agenda was set, with the growing belief that quick wins could be achieved by pursuing core strategies. Many firms began reengineering their process, in effect embarking on a search for new ways of organizing the various elements of business. Such new beginnings promoted a rethink and radical redesign of business processes in order to achieve dramatic improvements in critical areas of performance such as cost, quality, service, and speed (Gamble, 1995).

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

Within a few years Commercial Bank of Ethiopia expanded its branch in an alarming rate in the four corners of the country. Parallel to this, its activities which are the core and non-core functions are also increased, and the burden of management became very high from time to time. As the need to emphasize on the value-added functions such as internet banking, mobile banking, card banking and interest free banking were increased, Commercial Bank of Ethiopia has considered outsourcing five years ago (since 2010) to reduce day to day administrative burdens as well as to get improved quality service. Commercial Bank of Ethiopia has been further expanding its branch, the type of service and means of providing the service. Hence, such core activities are demanding increased emphasis of the decision makers and allocation of more resources as they are strategic functions of the bank that enable to provide quality of services to its customers. To provide a ground to focus on the core activities and improve service qualities, the management of the CBE came to the decision to transfer some of the non-core functions to an external service provider. In relation to this the three services namely security service, messenger service and janitorial service have been outsourced to Dejen security and janitorial PLC since 2010. But after three years CBE contractual agreement with Dejen was stopped and from the year 2013 these services have been transferred to another new service provider organization called Commercial Nominees PLC. (Maru. A, 2015)

According to Greaver (2013), Outsourcing can make efficiencies and brought down expenses since authorities can centre their endeavours on specific areas of knowledge. It is for this reason that this research sought to assess the prospects and challenges of outsourcing in the banking industry using the case of Commercial Bank of Ethiopia.

1.2. Statement of the problem

Outsourcing is a very crucial function in an organization because it directly affects the firm's operational activities. The use of outsourcing in Ethiopia is very low with the exception of outsourcing some non-core functions like security, courier, lobby and janitorial services. CBE has practiced the outsourcing services for more than 6 years. Even though outsourcing results several benefits for organization it has also problems or risks if the process is not managed in the proper way. In relation to this commercial bank of Ethiopia face with different challenges.

The first problem is that outsourcing intangible products like security service, courier service lobby and janitorial service are not as such transparent, and it is difficult to measure the service like that of tangible products. As the result commercial bank of Ethiopia can't able to properly measure the real cost of the outsourced service delivered by the service provider and a difficulty of controlling service quality as per the prior service level agreement.

Gilmer (1997) points out during implementation of outsourcing, jobs can be handover from the service users to service providers performing the outsourced function, which may result in decreased salaries or benefits. Consequently, the outsourced staff may have less loyalty to the client than if they were employed directly by the institution and express disappointment with the resulting inadequate services which affect the business sectors in many regards. Similarly, big problem with outsourcing emanate from the employees themselves as they are in doubt of loosing of jobs (Malhorta 1997).

Most service providers may not realize the client's culture or personality, and the services delivered by them may not fit in the client's culture due to some of them only produce one set of service delivery system for all their clients in order to reduce the production costs (Siegel, 2000). On the same tradition, managers are required to regularly monitor, establish constant communication, and evaluate outsourced functions to be confident that they are beneficial to their organization. Hence, burdens of managers with transactional administrative tasks may increase once again (Guterl, 1996).

Moreover, negative attitude, resisting to new changes and morale problem are real problems that will cause ineffectiveness to the clients (Siegel, 2000). There is also evidence that outsourcing does not reduce costs as expected in some cases (Beaumont and Sohal, 2004; Gonzalez, 2005). When such problems pose complex risks, divert the intended desire of the client, and adversely affect the buyer's performance on core competencies.

It is clear that outsourcing may bring many benefits to the organization with imposing some negative impacts. By considering the above issues the researcher tried to examine the challenges and prospects of outsourcing by raising research questions as stated below and providing answer to these questions.

1.3. Research question

- Which outsourcing activities are performed currently at Commercial Bank of Ethiopia?
- What are the opportunities the bank gets from outsourcing?
- What are the challenges encountered in carrying out outsourcing?
- What is employee's attitude towards the level of outsourced services?
- What should be done to overcome problems or challenges and to maximize the prospects of outsourcing?

1.4. Research objectives

The overall objective of this research is to assess the challenges and prospects of outsourcing noncore business functions in Commercial Bank of Ethiopia. In order to meet the general objective, the study investigates the following specific objectives

- Examining the existing practice of outsourcing in commercial bank of Ethiopia
- To find out the opportunities obtained as a result of outsourcing;
- To examine the challenges encountered in carrying out outsourcing;
- Examine employee's attitude towards the outsourced services and
- Offer the possible solutions that help to overcome challenges or problems and maximize the prospects of outsourcing.

1.5. Significance of the study

It is expected that the findings and recommendations are useful to commercial bank of Ethiopia and other similar business organizations, particularly for those considering outsourcing or broadening the range of their services. Identifying these facts benefit the bank whether to continue with outsourcing or not, what major actions to take to the faced challenges and to have a proactive mechanisms to tackle the addressed challenges. More over the study provided important inputs for researchers who are studying on risk management in outsourcing and for organizations this paper gives a better understanding of what would be anticipated when conducting outsourcing.

1.6. Scope of the study

The scope of the study will be limited to outsourced services in commercial bank of Ethiopia particularly branches found in east Addis Ababa District on security, courier services, lobby man and janitorial services due to familiarity and proximity of the study area and availability of data. Also, due to time constraint and manageability, the study only considered banks located in Addis Ababa. Therefore, any conclusion that will be drawn from this research is based on the above circumstances.

1.7. Limitation of the study

Even though commercial bank of Ethiopia is the oldest and largest bank in Ethiopia which has over one thousand branches throughout all part of the country, due to time constraint and to make the data manageable, the study is limited to branches found under east Addis Ababa District. In addition, the study also focuses on outsourced services of security services, courier service, lobby, and janitorial service. These make the research result may not fully show the extent of outsourcing practice in commercial bank of Ethiopia.

1.8. Organization of the study

The research consists of five chapters. The first chapter focuses on introductory aspects like background of the study, statement of the problem, objective of the study, scope of the study, significance of the study, definition of terms and limitations of the study. Chapter two present the literature review, which will be served as a basis for understanding the subject matter. Chapter three will be focused on the methodology of the study. Chapter four concentrated with the presentation and analysis of data obtained from responses. The fifth chapter is conclusions along with possible recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Conceptual Review

There is a growing body of literature about business process outsourcing documenting the reasons, benefits/advantages and problems associated. Many of the researches on outsourcing represent or attach a particular benefit for the financial sector.

2.1.1. The concept of outsourcing

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

Handfield (2006) defined outsourcing as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organization contracts out major functions to specialize and efficient service providers who become valued business partners. Outsourcing is, thus, the strategic use of outside resources to perform business functions traditionally managed by internal staff. Using an outsourced company which will help reduce costs and gain efficiencies by leveraging the talent, technology, and expertise of third party vendors.

Anikin and Rudaya (2014) described outsourcing as the situation where a company delegates its operations to be managed by a third party that can do it cheaper, better and at a faster rate.

Gilley and Rasheed (2000) -It is the substitution of activities performed in-house by acquiring them externally, although the firm has the necessary management and financial capabilities to develop them internally. It is also an abstention from performing activities in-house.

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

Outsourcing as a key business strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes. Companies have been outsourcing manufacturing operations, business services and even entire business lines successfully for a long time now. The idea of outsourcing has its roots in the competitive advantage theory propagated by Adam Smith in his book *„The Wealth of Nations,,(1776)*. Over the years, the meaning of term outsourcing has undergone a sea change. What started off as the shifting of manufacturing of goods to locations or countries providing cheap labour during the industrial revolution, it has taken on a totally new connotation in today,,s scenario. Today, information technology has become the backbone of businesses and plays a key role in all types of business transactions. Through outsourcing one company hands over part or whole of its business process to another company, making it responsible for the design and implementation as per the requirements and specifications of the outsourcing company. Handfield (2006)

2.1.2. Theories of Outsourcing

Two influential theories in the study of outsourcing have been transaction cost economics (TCE) and the resource based view (RBV) of the firm. The development of the transaction cost was based on the notion that the organization must be able to analyse the costs associated with planning, adapting, and monitoring the completion of task under different structures of governance. The management of an organization must be able to weigh the cost associated with executing a particular task within the organization and that outside the organization. That is they must be able to weigh the cost of internally conducting their production processes (in sourcing) and that of giving to an entity who has the technological knowhow and other facilities to undertake the task at a cheaper price and also effectively (outsourcing). The decision of whether to choose to buy from the market or to develop in-house is based on the cost associated with the acquisition of that product or service and this can be derived from both the production cost and the transaction cost. Transaction cost economics specifies the conditions under which an organization should manage an economic exchange internally within its boundaries i.e. Hierarchies and the conditions suitable for managing an economic exchange externally i.e. markets. Hierarchies involve performing processes inside the firm, using management authority to make and execute decisions. Markets involve relatively short-term, bargaining relationships between independent buyers and suppliers. The needs of the buyer are non-specific, which enables the supply market to achieve economies of scale. According to transaction cost economics, a company will make the outsourcing decision on

the basis of reducing production and transaction costs. Production costs refer to the direct costs involved in creating the product or service and include labour and infrastructure costs. Transaction costs include the costs of selecting suppliers, negotiating prices, writing contracts, monitoring performance, as well as the potential for opportunism from suppliers. The potential for opportunism increases if investments have to be made which are specific to a particular relationship. TCE argues that organization should employ hierarchical governance or employ a governance structure that uses less specialized investments in order to reduce the potential for opportunism (Peteraf, 1993).

Another prominent theory employed in the outsourcing decision is the resource-based view which views the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage. A major concern of the resource-based is how an organization's capabilities develop and affect its competitive position and performance. Proponents of the resource-based view argue that heterogeneity in an organization's knowledge-based resources and capabilities explain differences in performance and the sustainability of a competitive advantage. Therefore, the outsourcing decision is influenced by the ability of an organization to invest in developing a capability and sustaining a superior performance position in the capability relative to competitors. Processes in which the organization lacks the necessary resources or capabilities internally can be outsourced. Organizations can access complementary capabilities from external providers where they can gain no advantage from performing such processes internally (Peteraf, 1993).

Perunovic and Pedersen (2009) described the resource-based view as the type of outsourcing that is built on the idea that an entity that does not have valuable and organized resources and capabilities would need an external provider that can assist the focal organization in overcoming its weaknesses. Perunovic and Pedersen (2009) stipulated that resource based theory is mostly used in the preparation phase and helps to define the framework for making decisions and also in the selection of the appropriate vendor.

Although the RBV and TCE are focusing on two different issues (1) the search for competitive advantage and (2) the most efficient governance structure, organizations have to deal with these two important issues when making outsourcing decisions. Practitioners have to assess their capabilities across a range of business areas as they are increasingly being confronted with constraints on resources. This means that they have to prioritize resource allocation in certain key business areas where they possess strengths and outsource less

critical areas. Indeed, the trend towards specialization in many product and service markets has opened up opportunities for further outsourcing as specialist suppliers chase demand through offering a wider range of capabilities in more critical business areas. Furthermore, organizations perceive outsourcing as a means of achieving performance improvements in many areas of the business. Specialist suppliers are expected to deliver costs efficiencies whilst at the same offer a higher level of value. However, the potential for performance improvement has to be balanced against the potential for opportunism in the supply market. Organizations have to consider factors that influence the potential for opportunism such as the level of specific investments with the supplier, performance measurement difficulties and the inclusion of contractual safeguards to allow for uncertainty and changes in requirements. Possessing an understanding of these factors also allows an organization to adopt a relationship strategy, which reduces the risks of outsourcing whilst at the same time leverage the specialist capabilities of suppliers.

2.1.3. Rational of outsourcing

There have been many reasons for outsourcing selected in the literature, but the first position extends to striving to reduce operating costs. When a range of activities are outsourced, organizational problems can be gotten rid, and the core business can be concentrated on. Various authors outline as key drivers of international outsourcing the cost saving incentive and globalization. A variety of key reasons for an organization to outsource can be found in the literature, e.g. financial saving, strategic focus, access to advanced technology, improved service levels, access to specialized expertise and organizational politics. (Belcourt, 2006)

Outsourcing has moved from initiatives that were financially motivated to the current stage of being strategically motivated. Power (2009), quoted that financially motivated outsourcing efforts have been around since the early days of commerce. Manufacturing work, such as garment production, has long been outsourced to locations in South East Asia. The goal of these efforts was to get the best financial deal in terms of lowest cost of production. These efforts were mainly one-sided; information and requirements moved from the client to the vendor, who would then construct the product and/or service and deliver this back to the client. Information and knowledge would seldom flow back from the vendor to the client, as the client was assumed to be more knowledgeable than the vendor. In financially driven outsourcing efforts, it was common for a firm to structure a long-term deal with a single vendor so as to get the best possible discounts and secure the most stable relationship. After

all, the goal here was to offload work to places where it could be done at lower cost (Power, 2009).

Some of the reasons for outsourcing the services were discussed below

Focus on core competencies

The reason behind many outsourcing decisions taken by most management is that they would want to focus on the core competencies of their organizations. Potkany (2011) indicated it will help the organization to maintain its competitive advantage in the market that it operates.

A company has very small number of functions that are keys to survival. To give more attention to this core functions company distribute non-core functions among a group of suppliers who are capable of performing them well enough that company management will not have bother any of the details associated running them (Bragg,1998).

Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently (Choi 2008).

Outsourcing not only involves the transfer of work, but also the transfer of decision rights (Power, 2009). By transferring decision rights, the organization is reducing its need to focus high levels of resources on the effort of decision making. The vendor takes on the responsibility for decision making and is held accountable for the decision outcomes about achieving project goals. Transferring decision rights and accountability allows the client to pay more attention to its core competencies. Without engaging in outsourcing, the organization will perhaps not focus on areas in which it should invest manager attention and efforts.

Cost saving

Stroh and Treehuboff (2003) described outsourcing as an effective strategy that can help an organization to give out its noncore activities to be performed by another supplier. This they indicated could help the company maintain its customer services and also gain a competitive advantage in the market that it operates.

The predominant reason given for engaging in outsourcing is the cost savings, which are realized in several ways. First, cost savings can come from the simple move from fixed to variable cost models. In the fixed cost model, you own all the resources and have to pay for

their acquisition, upkeep and maintenance. These costs are fixed and occur no matter if you use the resource or not. Second, cost savings can come from the company doing the outsourced work. In the case of software development, most of the current outsourcing is occurring with companies in the so called developing world. Third, other cost savings could result from beneficial tax treaties and other foreign-trade agreements, wherein governments may encourage multinational and international corporations to open up businesses in the developing countries by giving tax concessions and other setup benefits.

Improve Flexibility

Choi (2008) justify flexibility as maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. According to Domberger (1998) flexibility is the ability to adjust the scale and the scope of production upward or downwards at lowest cost and rapid rate when a function experiences extremely large swing in the volume of work it handles, it may easier to eliminate the fixed cost of an internal staff and move the function to suppliers who will only paid for the actual work done. This converts the fixed cost into a variable cost –the price of the supplier’s will fluctuate directly with in the transaction volume it handles (Bragg, 1998).

Improving Service Quality

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

Access to skills

Organization may face with a shortage of skilled and experienced staff brought about by the change in the business operation setting, retirements, resignations, or recruitment problems. Existing staff may not always have the necessary skills to keep pace with rapidly evolving change and technology. When an organization is contemplating providing new services, outsourcing can ease the process of building the skills and resources required to respond to these new initiatives. In some cases, outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services (Choi, 2008).

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

The research conducted by different researchers in different time and in different countries almost all result confirms that the main motives of outsourcing are costs saving, to focus on core competence, improves flexibility and access resources unavailable internally. But among these cost saving is the primary reasons for outsourcing.

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

2.1.4. Challenges and prospects of outsourcing

Outsourcing has its own benefit and challenge .But the balance between the two is depends on the ability of the service receiver to analyse the function and the commitment of the service provider to provide the service based on prior agreement. (Maru A. 2015)

2.1.4.1. Benefit/Prospects of outsourcing

There are many benefits that can be obtained to an organization as a result of outsourcing, however, these depend on whether the company goes about the outsourcing project in the appropriate manner and if they are willing to put the time and effort into helping their staff

overcome the problems they may encounter as their jobs change and evolve. (Selamawit, 2015)

The former way of practice where organizations were somehow localized has changed and now most organizations are found in highly competitive international markets. This has called for some industries to move to other jurisdictions in order to find cheaper and skilled labour at the least cost available. This helps to reduce production cost). These factors have therefore forced most organizations to change in order to survive in this competitive world (Sankrusme, 2007).

If a business wants to survive in today's business world, its focus must be on flexibility, speed, and agility (Lee, 2008). To achieve that, the organization would have to focus on its core competency and contract its noncore activities and functions to an external company which has the resource and also could take that activity as its core. This outsourcing strategy would enable the focal organization to concentrate its core competencies and therefore increase its efficiency without having to invest a lot (Lee, 2008).

Outsourcing allows for organizations to concentrate on its core competencies. Outsourcing secondary activities allows the institution to focus more on core functions and to worry less about the other non-core business operations. Kennedy (2003) argues that the core reasons for outsourcing include enhanced service, staffing constraints, and budget constraints, to access technology. Similarly, Jefferies (1996) asserts that outsourcing, when properly planned and controlled, is expected to produce several benefits, such as reduced costs, improved service quality, and increased efficiency and innovation.

Advocates of outsourcing argue that the private sector provides better service more efficiently and at lower cost than the public sector which is unmotivated by profit. They point out that outsourcing to a contractor can reduce labour costs and increase benefits, provide a single point of accountability, and provide predictable costs; the resulting cost savings permits the institution to focus more resources on its core business functions (Jurison, 1995).

In other words, outsourcing results in improving the strategic triangle of an organization; quality, cost and time. Proponents of outsourcing recognize that the private sector vendors provide services more efficiently and at lower cost than the public sector (Jefferies, 1996). This can results in two ways: added expertise and economies of scale. Scholars'' points out

institutions can structure the outsourcing contract so that a vendor bears the cost of bringing in new equipment and technology, new levels of expertise and business knowledge.

Services providers are experts in their respective fields of operations and they possess the latest technology and knowledge to complete the assigned job. Organizations do not want to spend resources to do market research or other formalities in acquiring the latest techniques. Contracts may be structured so that vendors bear the cost of acquiring new equipment and technology. Similarly, institutions can take advantage of economies of scale achieved by vendors who specialize in a particular service area, allowing them to acquire inputs at a lower cost (Workalemaw 2015).

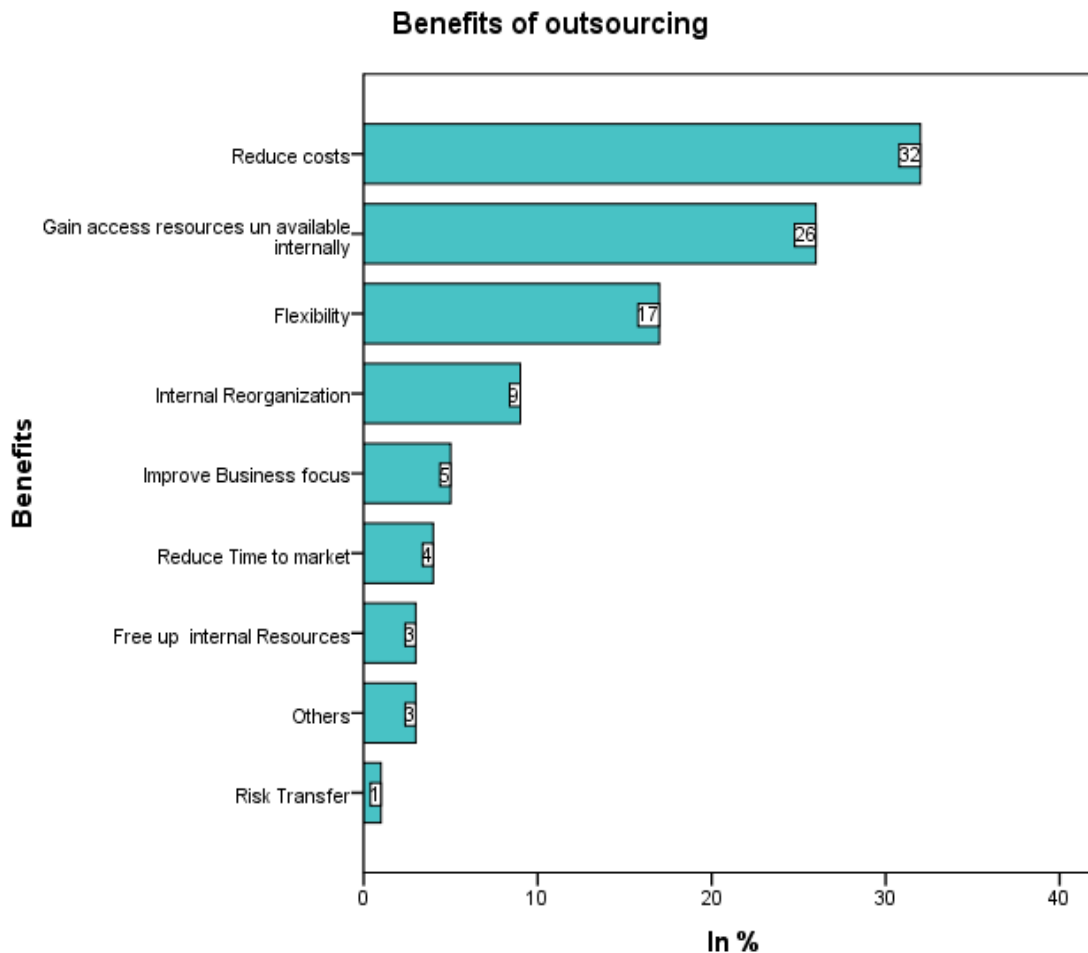
Outsourcing also gives company an opportunity to cut costs and significantly reduce the complexity and expenses of information systems operation and applications, to focus on core business processes of the company, not to waste sources that is focused on supporting. Outsourcing can bring valuable and various advantages to the company.

In addition, Outsourcing increases the efficiency of the company. The non-core business functions will be performed efficiently by outsourcing partner, while the core functions of the company can be efficiently carried out in-house. Thereby the managers of the company can achieve overall efficiency and see an increase in their profits.

Outsourcing is providing great flexibility for the company in case of sudden changes in market conditions or consumer preferences: it is easier and cheaper to find new suppliers with the necessary capabilities and resources than to rebuild the internal management of the company, eliminating some power and resources and creating new ones. (Strickland III 2008).By outsourcing non-core business functions, the company can save on every aspect of its business and increase the profits. It is possible to save on time, effort, infrastructure and manpower. Since company doesn't have to invest in infrastructure, it can also save on making unnecessary fixed investments. Outsourcing removes the burden of changing or maintaining infrastructure. Company's managers can also save on capital expenditure. Outsourcing can help to save on training costs, because due to outsourcing no need to invest in manpower. These savings will help bring about an increase in the company's revenue as a whole.

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

Figure 1 Benefits of Outsourcing



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

2.1.4.2. Challenges of outsourcing

According to Fan et al. (2011) the major challenges to outsourcing activities included loss of managerial control over outsourced operations, quality problems, threat to security and confidentiality, hidden costs and reallocation of existing teams. With the issue of loss of control over the outsourced operations they indicated that special skills are required in the management of systems. These skills include the skills to manage people and processes, management of contracts and negotiation skills.

The outsourcing contract will have terms and security spelt out in them. The challenge is that although these terms are clearly stated there is always a problem associated with auditing.

There is a major challenge associated with the execution and auditing of terms that are captured under the outsourcing contract (Ashley, 2012).

One of the expectations of outsourcing services is that the focal company expects to receive better services than that offered by its staff. The challenge therefore is the ability to choose an outsourcer that can provide the expected service. The outsourcer must be chosen such that it would not have any negative influence on the goods and services provided by the company. Adler (2013) indicated that if care is not taken in the selection of the outsourcer the consequence might be so grave that it can affect the position of the focal company (Adler, 2013).

Another major issue associated with outsourcing is that both parties are bound by only the terms and conditions as stipulated in the outsourcing contract. Anything that is not captured under the contract cannot be enforced on the other party. Any other duty that is performed by the outsourced company will be subjected to charges and that brings additional cost to the focal company.

The lack of an employment contract between the direct employer and employee, and labour warranty makes the labour rights of workers more vulnerable/helpless. Also with outsourcing there are risks of damaging property's safety, security and leakage of confidential information, through the provision of unregulated access to documents, records and property of the company. As well outsourcing vendors have the lack of knowledge of national and local cultural features and slight acquaintance with the psychology of company's customers.

Transfer of some functions to outsourcing is not practical for large organizations, because it can lead to loss of their privacy, reduction of the speed of provision of the necessary information for the management of the organization. Leaking confidential information can lead to loss of competitiveness of the company. As well the transfer of some functions to outsourcing can lead to loss of some kinds of activities that are providing the success for the company in the market. Moreover transferring to outsourcing a big amount of Functions Company can increase its costs. It is important to notice that enormous usage of outsourcing can lead the company to be fully dependent on outside outsourcing vendors. (Ababu W, 2015 Several challenges are likely to occur when an institution introduce outsourcing processes. Wang et al. (2013) highlights some of the pitfalls in outsourcing and stipulated that some outsourcing providers are found to lack knowledge, some providers are non-responsive, and

others have low performance standards. They therefore indicated that it will not be any organization that will see success if it decides to outsource some of its activities.

2.2. Empirical Review

Patterns of outsourcing differ somewhat in developing and transition countries. Developing and transition countries are practicing outsourcing, off-shoring and on-shoring. According to the A.T Kearney's 2004 Off-shore Attractiveness Index --- India, China, Malaysia, Czech Republic, Singapore, Philippines, Brazil, Canada, Chile and Poland are ranked from 1 to 10 depending on strong mix of low costs and depth in human resources. Many governments have been working to increase business process outsourcing for big businesses reducing secondary business process costs in order to boost productivity and competitiveness as it would allow more resources to be applied to core business activities.

On the other hand, the literature on outsourcing notes that one indirect benefit of outsourcing is the discipline imposed on service providers to assign and maintain well trained, more experienced and highly skilled personnel. A recent World Bank study concluded that more outsourcing in developing countries "is significantly associated with more advanced market and reliable access to service providers". If the banks lack the skills to undertake their own in-house operation and can't afford to hire the necessary expertise, they can find themselves in practicing business process outsourcing. (World Bank, 2009)

IT outsourcing is strongly focused around technical professionalism, and the migration to business process outsourcing introduces this extra dimension of application professionalism. IT outsourcing is a common occurrence and, for instance, about 90 % of European banks outsource ICT functions. This includes software development and IT-enabled processes such as call centres and accounting. According to a global survey of 50 banks, back office and other routine support functions are also increasingly outsourced. (World Bank, 2009)

In another occurrence, bank cards are becoming the means of each commercial bank to establish core competence due to the rise of branch business and the opening of the financial market in China. The incidence of "outsourcing" – i.e., hiring external specialists to assist with various aspects of business process – is noted in several of the outsourcing studies. Most commonly, it is noted that banks have a relatively high tendency to outsource some or all of their non-core competencies, either because they lack the expertise or because the amount of

work would be insufficient to warrant hiring a full-time employee or open unit for executing those activities.(Reyes Gonzalez, page 2).

Based on the research conducted on larger Spanish firms, Outsourcing gives the organizations the opportunity to have better IS services and the possibility to achieve technological improvements and, although cost savings in staff and technology are generally seen as very important, they do not emerge as priority reasons for outsourcing in the present study. Regarding risks, they are mainly associated with providers, with great concern being expressed about the lack of qualification among their providers' staff, the potential lack of compliance with contracts, and the inability to adapt to the New Technologies (Reyes Gonzalez, page 2).

From a supervisory perspective, the outsourcing trend is a significant development. Whether outsourcing results in an increase or decrease in the overall risk profile of an institution will depend on the significance of the outsourced activity, the effectiveness of controls over outsourcing risk, and the strength of the service provider. If not properly managed, outsourcing can increase an institution's overall operational, legal and reputational risk, and ultimately lead to unintended credit exposures and business expenses, or other types of losses (Bartem and Sherry, 2001).

Focusing on its core business and creating a competitive advantage within the industry is an important driver for HR outsourcing in Indian banks (Surya Narayan, 2012). The primary reason for banks mainly utilizing in house resources to organize events was due to the confidentiality of information. In order to respect client confidentiality and to not reveal sensitive data, this prevents them from using an external company to outsource event services.

Furthermore, there was a general consensus of outsourcing event service was not cost effective and it was more for the reasons of time saving and the using an external company, they have access to the expertise and up-to-date knowledge of what is going on in the event industry, including technology equipment for example (Delphine Francoise et al., page 14).

Zemen Bank: has outsourced security guard, janitorial services among other support activities. Its major outsourcing scheme is the IT component including security, which is fully run by a company called off shoring 2.0 Technology Services an associate of event Enterprise Inc., USA.

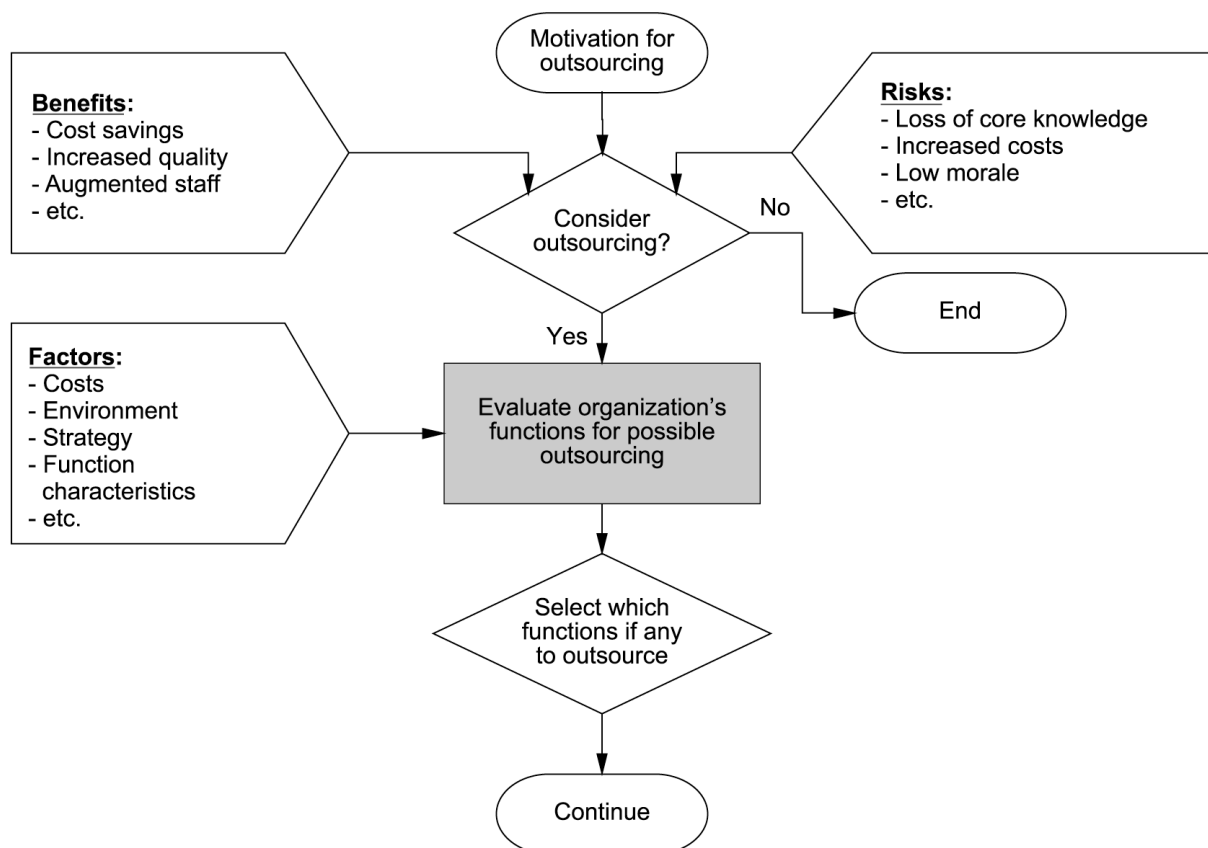
Dashen Bank: has outsourced some of its IT functions for domestic and international service providers mainly for maintenance and software development. In addition, security guards are

placed and major cleaning services are outsourced. Physical repair and maintenance of buildings, vehicles, office equipment and machines are done on a one-time contractual basis.

Therefore, outsourcing implications on business sectors need to be viewed from a different perspective. Throughout this paper outsourcing has been addressed in relation to outsourcing functions within the Commercial Bank of Ethiopia. What it matters is that business sectors need to become more flexible, entrepreneurial, responsive and efficient and proper evaluations of outsourcing opportunities and threats can help a business to reach their goals by trying new things, competitively price services, strengthen capabilities use other people’s capital and, most importantly, to concentrate on what they do best (Bartem and Sherry, 2001).

2.3. Conceptual Framework

Figure 2 Conceptual framework



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

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with the methodology used by the researcher to investigate the challenges and prospects of outsourcing in commercial bank of Ethiopia.

3.1. Research Approach

In order to attain the objective of the study and answer the research questions; the researcher adopts Quantitative research approach and this study is a descriptive study.

3.2. Research Design

The study is descriptive study that sets out to describe the outsourcing practices of the bank and to evaluate its prospect and challenges. It will be based on the data collected through questionnaires, interview with the employees of the bank and from framed literature review. The study organization, Commercial Bank of Ethiopia, is selected due to their convenience to the researcher. This convenience is related to data availability and familiarity of this organization for the researcher.

3.3. Population and Sample

Population

The population of the study includes manager of the service provider, manager of outsourced administration office and CBE staffs who were found in 73 branches under east Addis Ababa district and employees in the outsourced administration office. The total population of the study was 2016. Among these 2014 are CBE staffs, 1 manager of service provider and 1 outsourced office manager.

Sample

Sampling Method

The researcher applied both probability sampling (simple random sampling) and non-probability sampling (purposive or judgmental sampling) techniques. The managers of the service provider and outsourcing administrative office were selected by judgmental sampling technique and sample for other groups were selected by using simple random sampling. The reason for using judgmental sampling was because both the managers of the service provider and outsourcing administrative office have direct relationship with managing and facilitating

the services in the bank. And also simple random sampling was used to assess the attitude of the employees in on the service given.

The sample size was determined by using the **Slovin's formula (Serakan, 1992)** Therefore,
 $n = \frac{N}{1 + Ne^2}$

Where:

N is the population size which is 2016

n is the sample size

e is the margin of error which 7% error margin

Therefore, the study's sample size of 185 is fair enough to represent the target population of the study area.

3.4. Data source and types

The study will be undertaken based on the data that will be 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 structured interview will be conducted with manager of Outsourcing Management Offices (OMO). In an attempt to obtain first-hand information, the data will be collected from samples through questionnaires and interview. The questionnaires will be prepared in English because the target area population is both professional employees to understand the subject matter. The rest of the data for this research obtained from a body of secondary sources. To get secondary data relevant documents related to the study subject, the researcher used annual reports, websites of the bank and research papers to get information on theoretical frame work of the study.

3.5. Data collection procedure

As discussed above, questionnaires were distributed to 185 selected branches employees of Commercial Bank of Ethiopia. Data from interview will be made with Outsourcing Management Office of CBE and manager of service provider will be collected by the researcher. In order to maximize the rate of return, attempts will be made to distribute the questionnaires at convenient time for respondents and a close follow-up is made to obtain reliable data return.

3.6. Data analysis

After proper editing, the data was coded and entered to the software then it was made ready analysis. For the purpose of achieving the objectives of the study, the collected data was processed and analysed with descriptive statistics using Statistical Package for Social Studies

(SPSS). This technique was selected because it helps to summarize the sample, provides and allows describing the characteristics of the data collected and it helps to thoroughly analyse and interpret the questions one by one in order to reach meaningful results. Throughout the analysing process, percentages are used. In doing so tables were used to present and made easily understandable the findings in order to arrive at meaningful results.

3.7. Ethical consideration

The researcher has received permission from Commercial Bank of Ethiopia to undertake this research, thus the interview was conducted and questionnaires were distributed with full knowledge of the management. Ethical issues in this research concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using secured data for academic purpose only and ensuring that the respondents personality would not exploited.

3.8 Validity and Reliability of the study

Validity

Items in the questionnaire were prepared using a five point-Likert scale multiple questions and interview questions. In order to ensure validity of the items incorporated the questioner, it was examined the instrument before it was distributed.

Reliability

Internal consistency of items incorporated in the instrument was checked by using Cronbach Alpha. Mean of each variable was computed and then the reliability was checked based on the Means. The following Table shows the SPSS result on the Cronbach Alpha.

Table 1. Reliability Statistics

Cronbach's Alpha	N of Items
.905	19

Source: SPSS reliability result output

As indicated in the Table 3-1 above, the Cronbach Alpha test implies that the instrument's internal Consistency is 90.5%.

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 employees and managers through questionnaires and interview respectively.

In order to address the research questions, 185 questionnaires were prepared and distributed to CBE employees, Out of these questionnaires 165 were filled and returned, the rest 20 questionnaires were unreturned and no questionnaires were discarded due to missing data.

4.1 Background of Respondents

4.1.1. Sex of Respondent

Table 4-1 SEX of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid female	52	31.5	31.5	31.5
Valid male	113	68.5	68.5	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As depicted above in the Table 4-1, 113 (68.5 %) of the respondents are male and the rest 52 (31.5%) are female. This shows that the major respondent was dominated by male.

4.1.2. Age of Respondent

Table 4-2 Age of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18-25	35	21.2	21.2	21.2
Valid 26-40	75	45.5	45.5	66.7
Valid 41-55	39	23.6	23.6	90.3
Valid >55	16	9.7	9.7	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

With regard to age category 35 (21.2%) were between 18-25years, 75(45.5%) were between 26 and 40 years, 39(23.6%) of them were between 41 to 55 years and the rest 16(9.7%) of the respondent were above 55 years old.

4.1.3. Education Level of Respondent

Table 4-3 Education level of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	16	9.7	9.7	9.7
Degree	101	61.2	61.2	70.9
above degree	48	29.1	29.1	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

The majority of the respondent's educational status (61.2 %) have first degree level of educational background whereas only 29.1% and 9.7 % of the respondents had second degree and diploma levels respectively. This shows that the employees are fairly educated and they can also understand and gave reasonable responses to the questionnaire distributed to them.

4.1.4. Respondent Job Position

Table 4-4 Respondent Job Position

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid managerial	48	29.1	29.1	29.1
professional	94	57.0	57.0	86.1
clerical	23	13.9	13.9	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

94 out of the total respondents were Professional representing 57 % and 48 respondents were managerial and the rest are clerical (23 %).

4.1.5. Service Year of Respondent

Table 4-5 Service Year Of Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-2	33	20.0	20.0	20.0
3-6	60	36.4	36.4	56.4
7-10	46	27.9	27.9	84.2
>10	26	15.8	15.8	100.0
Total	165	100.0	100.0	

From the Table above we can see that respondents who have served for 1-2 years represent 20%, 3-6 years representing 36.4%, 7-10 representing 27.9 and above 10 years representing 15.8%. Majority of the respondents were under the category of 3-6 years and 7-10 years.

4.1.6 Respondent level of awareness on outsourcing

Table 4-6 Respondent outsourcing level of awareness

	Frequency	Percent	Valid Percent	Cumulative Percent
very low	6	3.6	3.6	3.6
low	10	6.1	6.1	9.7
Valid medium	34	20.6	20.6	30.3
high	85	51.5	51.5	81.8
very high	30	18.2	18.2	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As it can be seen from Table above, the largest groups of respondents 69.7 % (51.5% high and 18.2% very high) have high knowledge about the concept of outsourcing and 20.6% of them know the concept of outsourcing in medium state. From this we can conclude that the respondents have knowledge about the concept of outsourcing. This helps the researcher to get reasonable responses from them since they have knowledge about the study subject. However, about 3.6% of them were unfamiliar to the concept.

4.2. Benefit of Outsourcing

Literature on the subject has identified potential benefits, 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 benefited the bank as compared to in-house sourcing.

1. To Focus on Core Strategic areas

Table 4-7 Employee Response on To Focus on Core Strategic areas

	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	15	9.1	9.1	9.1
Not Much	9	5.5	5.5	14.5
Valid Average	13	7.9	7.9	22.4
Much	47	28.5	28.5	50.9
Very Much	81	49.1	49.1	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As observed in the above table, although 14.6 % of the respondents haven't seen any benefit, 77.6 % of them assert that outsourcing helped the bank to focus on more strategic areas rather than non-core activities, and last 7.9 % of the respondent had no idea about such benefits in the bank. 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. According to Bragg (1998) a company manager typically spent the bulk of each day handling the detailed operation their functional areas. By outsourcing this function a company can give the tactical part of each manager's job to supplier which allows the management team to spend more time on strategic issues as market positioning and product development.

2. Cost Reduction

Table 4.8- Employee Response on Cost Reduction

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not at all	4	2.4	2.4	2.4
Valid Not Much	28	17.0	17.0	19.4
Valid Average	75	45.5	45.5	64.8
Valid Much	22	13.3	13.3	78.2
Valid Very Much	36	21.8	21.8	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

Regarding the benefit of cost reduction, majority of respondents representing 45.5% believed that the benefit gained is average. Among the total respondents 35.1% of them believed outsourcing brings the above benefit very much and much respectively. While 19.4 % respondents believe outsourcing does not (not much) bring the above mentioned benefit. 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.

3. To access new skill

Table 4-9 Employee Response on to access new skill

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	45	27.3	27.3
	Not Much	80	48.5	75.8
	Average	13	7.9	83.6
	Much	22	13.3	97.0
	Very Much	5	3.0	100.0
	Total	165	100.0	100.0

With respect to whether or not outsourcing helps for CBE to access new skills not available internally, only 16.6% of the respondents said it enabled the bank to access new skills, 7.9% were neutral but the majority 75.8 % of them approved that the current outsourced services in CBE did not have any connection with accessing new skill. But the response of the majority was unlike with Aran and Patel (2005) suggestion, functions noncore for the outsourcer is core for the vendors. Since it is a core activity for the vendor, it would strive to bring about improvements in the outsourced process and deliver superior quality standard than the company itself.

4. Improved Quality

Table 4.10 Employee Response on Improve Quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	12	7.3	7.3
	Not Much	68	41.2	48.5
	Average	45	27.3	75.8
	Much	19	11.5	87.3
	Very Much	21	12.7	100.0
	Total	165	100.0	100.0

Source: Survey Questionnaire, 2017

From the above table, 24.2% of the respondent said there was service quality improvement after CBE outsourced the services. On the contrary most of the respondent 48.5% said the service provider did not improve the service it delivered to CBE and others (27.3 %) are on average. Quality improvement was the primary reason while outsourcing but the data shows us that the CBE does not satisfy with the quality of service delivered.

5. Save management time

Table 4.11 Employee Response on save management time

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	20	12.1	12.1
	Not Much	7	4.2	16.4
	Average	18	10.9	27.3
	Much	65	39.4	66.7
	Very Much	55	33.3	100.0
	Total	165	100.0	100.0

Source: Survey Questionnaire, 2017

Most 77.7% (33.3% & 39.4%) of the respondents says that outsourcing helps CBE to saves management time through reduced the need to control day to day operations of the services, on the other side 16.3% of them have not seen much benefits to the bank which was supported by the majority, and the remaining 10.9% are on average. This also align with Bragg (1998) comment, if the company is rapidly acquiring market share, the management team will be stretched to its limit building the company up and to handle the volume of the business. In such situation the management team will desperately need additional help in running the company by focusing on a small number of core activities. Bragg 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.

6. Improves Flexibility

Table 4.12 Employee Response on Improve Flexibility

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	48	29.1	29.1
	Not Much	77	46.7	75.8
	Average	18	10.9	86.7
	Much	12	7.3	93.9
	Very Much	10	6.1	100.0
	Total	165	100.0	100.0

Source: Survey Questionnaire, 2017

As we see from the above table, 75.8% of the respondents confirm that the flexibility of outsourced service was not improved, on the opposite side 13.4% of the respondents respond as the service provider improved the flexibility of the service and the few (7.3%) of them were average on this issue. Which means the majority conclude that, the service provider did

not realize the benefit of outsourcing supposed by the literature. According to Choi (2008), flexibility maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. On the contrary, organizations may only be able to maintain resources at a level just sufficient to meet normal demand, which is lead to poorer customer service at peak periods. In such situation outsourcing of functions that are subject to peaks and troughs in usage can provide organization with the flexibility to respond rapidly to changing demands.

7. Assist the fast Expansion of the bank

Table 4.13 Employee Response on fast expansion of the bank

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Not at all	7	4.2	4.2	4.2
Not Much	9	5.5	5.5	9.7
Average	21	12.7	12.7	22.4
Much	51	30.9	30.9	53.3
Very Much	77	46.7	46.7	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As we see from the above table, majority (77.6 %) of the respondents agreed that outsourcing assists very much the current fast growth of situation of CBE , while 9.7% of the respondents believed that there is no much benefit on assisting the expansion, the reaming 12.7% are on average.

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.

4.3. Challenges of outsourcing

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

1. Difficult to measure service quality

Table 4.14 Employee Response on difficult to measure service quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	5	3.0	3.0	3.0
Low	18	10.9	10.9	13.9
Valid Just right	13	7.9	7.9	21.8
High	80	48.5	48.5	70.3
Too high	49	29.7	29.7	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

Majority (78.2%) of the respondents replied as difficulty of measuring service quality, on the other side 13.9 % of them have not seen much as a problem to CBE and the remaining 7.9% are on average. This response also agreed with Dickstein and Flast (2009), which says outsourcing intangible products like security service, courier service and janitorial service are not as such transparent, and it is difficult to measure the service like that of tangible products.

2. Low Employee belongingness

Table 4.15 Employee Response on Low Employee belongingness

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	5	3.0	3.0	3.0
Low	9	5.5	5.5	8.5
Valid Just right	21	12.7	12.7	21.2
High	84	50.9	50.9	72.1
Too high	46	27.9	27.9	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As we see from the above table, majority (77.9%) of the respondents replied that low employee belongingness is a serious challenge to the bank. Only 8.5% (3% too low and 5.5 low) respondents thinks that it doesn't have any effect and the rest 12.7 are on average.

3. Conflict of Interest

Table 4.16. Employee Response on Conflict of Interest

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	7	4.2	4.2	4.2
Low	21	12.7	12.7	17.0
Just right	72	43.6	43.6	60.6
High	40	24.2	24.2	84.8
Too high	25	15.2	15.2	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

15.2% and 24.2 % of the respondents responded that they believe the challenge is too high and far too high respectively. But 12.7% and 4.2% of the total respondents believe the level of challenge is low & too low respectively. Majority of the respondents representing 43.6 % said the problem related to conflict of interest among outsourced & permanent employees is just right. From the above data we can tell that conflict of interest among the employees that have been outsourced and permanent employees exists and it is high. Here again the conflict of interest is a serious issue that will bring about low belongingness for the bank.

4. Loss of Control

Table 4.17 Employee Response on Loss of Control

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	12	7.3	7.3	7.3
Low	30	18.2	18.2	25.5
Just right	39	23.6	23.6	49.1
High	52	31.5	31.5	80.6
Too high	32	19.4	19.4	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

The majority respondent (50.9%) responds that CBE losses direct controlling the day to day activities and performance of the outsourced services, others 25.5% of them against with the majority and the remaining 23.6% are on average. This response were agreed with what Domberger (1998) said, outsourcing involves the perceived loss of control. Many managers adhere to the view that ownership means control. In outsourcing if complementary assets are independently owned, cost will higher and efficiency lower than if they are held under single ownership. Thus, this indicates loss of control through fragmented ownership implies higher cost or inefficiency. In addition Alex Bank (2010) also stated that, due to lack of direct

control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

5. Unethical behaviour of employees

Table 4.18 Employee Response on Unethical behaviour of employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	58	35.2	35.2	35.2
Low	67	40.6	40.6	75.8
Valid Just right	26	15.8	15.8	91.5
High	7	4.2	4.2	95.8
Too high	7	4.2	4.2	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As we see from the above table, 8.4% (4.2 high and 4.2 too high) of the respondents said unethical behaviour of the outsourced employees were the problem in CBE, but most of them 75.8% (40.6 low and 35.2 too low) rejected the statement related to ethical problem and the rest 15.8% were on average.

6. Low Quality of Workers

Table 4.19 Employee Response on Low Quality of Workers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Too low	8	4.8	4.8	4.8
Low	14	8.5	8.5	13.3
Valid Just right	49	29.7	29.7	43.0
High	73	44.2	44.2	87.3
Too high	21	12.7	12.7	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

As we see from the above table, 56.9 % of the total respondents replied that the low quality of workers provided by the supplier is too high and high than anticipated by the bank. On the other hand 8.5 and 4.8% and of the respondents responded that the level of challenge is low and too low respectively. In addition 29.7 % of the total respondents believed the level of challenge is just right. From this it can be generalize that the quality of workers provided by outsourcing companies is not satisfactory. CBE has expected the quality service to be gained while outsourcing its services, but the result is the reverse and it is still one big challenge faced.

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

4.4. Employees attitude on the outsourced service

4.4.1. Employees Commitment

Table 4.20 Employee Response on Employee Commitment

	Frequency	Percent	Valid Percent	Cumulative Percent
1	35	21.2	21.2	21.2
2	70	42.4	42.4	63.6
Valid 3	12	7.3	7.3	70.9
4	24	14.5	14.5	85.5
5	24	14.5	14.5	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

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

As we observe from the above table, about 42.4% and 21.2 % of respondent of the questionnaire indicated that outsourced employees were not committed to their duties and responsibilities and on the opposite 14.5% of them tried to disagree with them, and the rest 7.3% is on average. In this issue, human resource manager of the service provider mentioned that CN did not provide other benefit to the outsourced service employees (messenger, janitors and security guards and lobby man/women) like that of permanent employees working with them. And also the service provider collects much money from their monthly salary in the form of commission and they have a fear of job loss. All this adds up creates employees dissatisfaction or low employee commitment.

4.4.2. Security

Table 4.21 Employees response on security

	Frequency	Percent	Valid Percent	Cumulative Percent
1	52	31.5	31.5	31.5
2	75	45.5	45.5	77.0
3	18	10.9	10.9	87.9
Valid 4	11	6.7	6.7	94.5
5	9	5.5	5.5	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

Employees are asked whether theft decreased in CBE after security service is outsourced as compared to before it was outsourced, and With regarding to this 12.2% (6.7% & 5.5%) answered theft is decreased in CBE after security service was delivered by the service providers, while 10.9% of the respondents did not perceive whether the level of theft increase or decrease, despite the fact most of them 77% (45.5% & 31.5%) argued that the theft did not decrease in their organization.

With regarding to security service as most of the respondents indicated that the quality of the service delivered by the service provider was not good as the result the number of theft actions not vanished in the bank especially in the lobby area and their customers did not feel more secured and comfortable with the current security services delivered by the service provider. Manager of CBE outsourced administrative office strengthens the idea of CBE employees stated above .He notify that commercial bank of Ethiopia need strong and equipped security guards, but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it. This is complied with Bragg (1998) suggestion; supplier sometimes gets around the high price problem by paying a very low rate to its security employees, which results in outsourcers being given a very junior security force who didn't have enough skill and experience about the work. Domberger (1998) also said that the ultimate goal of service provider is to make profit whereas the client seeks to obtain the best value for money from the contract. Thus, the interest of these two parties obviously diverges and the service provider stands to benefit from shrinking resources which results in an incentive to reduce efforts.

4.4.3 Training and knowhow of the Job

Table 4.22 Employee response on Training and Knowhow of the Job

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	55	33.3	33.3	33.3
2	54	32.7	32.7	66.1
3	30	18.2	18.2	84.2
4	21	12.7	12.7	97.0
5	5	3.0	3.0	100.0
Total	165	100.0	100.0	

Source: Survey Questionnaire, 2017

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

In connection with skill and performance of outsourced employees, 66%(33.3% &32.7%) said messengers and security guards of the bank were not well trained and know their jobs as well as they did not perform tasks as per their expectation. Some 15.7% (12.7%&3%) of them argued in the opposite side of the majority and the rest 18.2% are neutral on the issue.

According to CBE outsourced administrative manager, the major problem they faced with related to outsourced services were the service provider hire unskilled employees especially in security guards and messengers. He also mentioned that according to the service level agreement that they made at the time of contract, the service provider should provide skilled full employees as the job required and it should give the necessary training that helps for performers to perform their duties and responsibilities in the bank.

To the contrary as the time of interview the manager of the service provider explained that one of their basic problem is lack of skilled man power in security, messenger and janitorial services in the market. According to the manager of the service provider most of their employees have negative attitude towards their job and they think that to perform their duties formal training is not as such crucial. As his explanation this is the reason for employees assume themselves skilled enough.

4.4.4. Level of employee satisfaction on outsourcing

Table 4.23 *Level of employee satisfaction on outsourcing*

	Frequency	Percent	Valid Percent	Cumulative Percent
1	8	4.8	4.8	4.8
2	22	13.3	13.3	18.2
3	9	5.5	5.5	23.6
4	84	50.9	50.9	74.5
5	42	25.5	25.5	100.0
Total	165	100.0	100.0	

Source: *Survey Questionnaire, 2017*

(i.e. 5=very satisfied, 4=satisfied, 3=Neutral, 2=Dissatisfied, 1=very dissatisfied)

As shown in the table above, 50.9% of the respondents are satisfied with the services outsourced. 13.3%, 4.8% and 5.5% of them said that they are dissatisfied, very dissatisfied and neutral respectively. The remaining, 25.5% of the respondent affirmed that they are very satisfied. This indicates that 23.6% of the total respondents are not satisfied by the services delivered by outsourcing agents.

4.4.5. Does CBE outsource additional Non-core activities?

Table 4.24 *Employees Response on outsourcing additional Non-core activities*

	Frequency	Precent	Valid Percent	Cumulative Percent
1	6	3.6	3.6	3.6
2	24	14.5	14.5	18.2
3	17	10.3	10.3	28.5
4	78	47.3	47.3	75.8
5	40	24.2	24.2	100.0
Total	165	100.0	100.0	

Source: *Survey Questionnaire, 2017*

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

Employees are asked their opinion whether CBE should outsource other noncore functions or activities of the bank in addition to the services outsourced currently, and Most of the respondents 71.5 % (47.3% &24.2%) recommend that in the future commercial bank of Ethiopia should outsource other none core functions rather than keeping in house. But 18.1% (14.5% &3.6%) suggest as the bank should not outsource more none core functions and the remaining (10%) are in between. Even though there are many challenges in the outsourced service, CBE employees still need the service by outweighs the benefit that the bank gets if t

some improvements will be made by negotiation and communication with the service provider.

Moreover, CBE outsourced manager stated that even though the current service provider has performed below the standard stated in SLA, still the bank get benefit from outsourcing in different aspects. As the result CBE already identified and planned to outsource additional non-core functions such as human resource recruitment and selection, acquired asset management to other service providers for those specialized in the area.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with summary of major findings, conclusions of the study findings and recommendation.

5.1 Summary of Major Findings

- Majority of the respondents believed that, the benefits from outsourcing is in an average term. But for the case of concentrating on Bank's core business and saves management time, 77.6% of respondents agreed that outsourcing benefited the bank.
- Outsourcing also has different challenges, but from all the challenges analyzed, difficult to measure service quality and low employee belongingness was the major challenge faced by the bank and its level as indicated in the study is too high.
- Although security service is very critical for financial institutions, as most of the respondents indicated that the quality of security service delivered by the service provider was weak. As the result the number of theft actions was not vanished in the bank particularly in the lobby area.
- 63.6% of the respondents indicate that, employees of the service provider had lack of commitment and belongingness towards their job.
- The employee's attitude toward the need of additional outsourced noncore services or not, majority of the respondents (71.5%) indicate that, outsourcing additional non-core services help CBE to focus on the major core activities.

5.2. Conclusion

The study has assessed the benefits and challenges of outsourcing practices at Commercial Bank of Ethiopia on non-core activities (messenger, Security, lobby and cleaning Services) in order to answer whether outsourcing has benefited or hindered the core business functions after the implementation of outsourcing strategy.

CBE has faced some challenges; difficult to measure service quality, low employee belongingness, conflict of interest, loss of control, unethical behaviour of employees and low quality of workers. But from all the challenges, the most serious one are difficult to measure service quality and low employee belongingness.

For the case of accessing new skill, flexibility, cost reduction and improved quality, majority of them believed outsourcing haven't benefited as expected. For the case of concentrating on bank's core business and saves management time, most of the respondents agreed that outsourcing benefited the bank.

Finally the researcher tried to assess employee's attitude toward the current outsourced services and found that there is low employee commitment, the quality of security service delivered by the service provider was weak and messengers and security guards of the bank were not well trained and know their jobs as well as they did not perform tasks as per their expectation.

Even though there is some challenges, employees of CBE has a positive attitude towards outsourcing and they recommend that in the future the bank should outsource other non-core activities rather to keep in-house by minimizing the challenges faced.

5.3 Recommendations

On the basis of the findings and conclusions reached, the researcher would like to make the following recommendations

- Outsourcing services should be checked at certain time intervals against fixed measurements or set standards. The standard must be transparent and well-known by both the client and the supplier. This has to be supported by well-established Service Level Agreement (SLA).
- Monitoring and evaluation system need to be put in place for timely corrective action before time elapses and rectification becomes so difficult. When it is used in a calculated and well-designed way, outsourcing could bring lots of benefits to the client organization. If applied without proper assessment of the capacities of service providers, it may involve irreparable damages in the short-range and could draw lots of risks that may disturb time-honoured organizational culture. Hence, any form of outsourcing is likely called for maximizing benefits and minimizing risks.
- Since outsourcing has many advantages, the bank has to focus on outsourcing other non-core activities of the bank like office equipment maintenance, human resource recruitment and selection, acquired asset management and transport management so as to benefit from outsourcing as demanded and concentrate on the banks core activities as a result increasing the organizational performance.
- The bank should give due emphasis on increasing employee belongingness. Since the area of work is risky in performing with such less countable employees the bank has to focus hard on this issue.
- Commercial bank of Ethiopia should deal with the service provider to facilitate the necessary training to improve employees' skill.

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Appendix

Addis Ababa University
School of Commerce
Department of Logistics and supply chain management
School of Graduate Study
Questionnaire to be filled by CBE employees

Dear Respondents:

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

Betelhem Mekuria

Thank you in advance for your cooperation.

Part One: Respondent Profile

Instruction: Put “circle” on the appropriate letter to signify the importance level of each item.

1. Sex:

A. Male B. Female

2. Age:

A.18-25 B.26-40 C. 41-55 D. Above 55

3. Educational level

A. Certificate B. Diploma C. Degree D. Above degree

4. Year of service

A. 1-2 years B. 3-6 years C. 7-10 years D. Above 10 years

5. Job Position

A. Managerial B. Professional C. Non-clerical D. Other

6. What is your level of awareness about the concept of outsourcing?

A. Very low B. Low C. Medium D. High E. Very high

Part Two: Questions Related with the topic

Dear Respondents for question no. 7 to 9 please read the statement and put tick mark“✓”

7. To what extent outsourcing benefited the bank as compared to in-house sourcing? (Please Make (✓) in the best suited measure.

#	Benefits	Very much	Much	Average	Not much	Not at All
1	Reduced overheads and operational costs.					
2	Outsourcing helped the bank to focus on more strategic areas rather than none core activities.					
3	Outsourcing helps for CBE to access new skills not available internally.					
4	Improved Qualities					
5	Outsourcing saves management time and money through reduced the need to control day to day operations of the noncore function of activities of the bank.					
6	Improves Flexibility					
7	Assist the fast expansion of the bank					

8. Challenges observed after outsourcing the service. (Please make (✓) in the best suited measures).

#	Challenges	Too High	High	Just Right	Low	Too Low
1	Low Employee belongings					
2	Conflict of interest between outsourced employees and permanent bank employees.					
3	Difficult to measure service quality					
4	Loss of control over					
5	Quality of workers provided by the supplier is lower than anticipated.					
6	Unethical behaviour the employees.					

**9. Questions related to employees attitude towards the out sourced services
(Please make (✓) in the best suited measures).**

#	Employee Attitude on Outsourcing Services	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Theft increased in CBE after security service is outsourced as compared to before it was outsourced					
2	The Outsourced employees are committed to their duties and responsibilities.					
3	Messengers and security guards of the bank are well trained and know their jobs as well as they perform tasks according to CBE expectations.					
4	You and CBE customers are satisfied with the current services offered by the service provider.					
5	CBE should outsource other non-core functions or activities of the bank in addition to the services outsourced Currently.					

10. Additional comments, please Specify it.

Thank You for Your Cooperation!

Addis Ababa University
School of Commerce
Department of Logistics and supply chain management
School of Graduate Study
Questionnaire to be filled by CBE employees

Interview question to be answered by Manager of the outsourcing Administration Office

1. How do you compare the challenges and benefits before and after outsourcing?
2. Due to outsourcing security services, is theft increased? Commitment decreased?
3. What type of measure did your organization take to solve problems that faced during? or after outsourcing? (If any)
4. Do you think that the service quality and performance of the service provider result in Service level Agreement? If not what is/are the reason/s?
5. Does the bank have a plan to outsource other non-core business activities in future?
6. If you have any comments and suggestions?

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

1. What are the major challenges or problems facing your organization in relation to the service you provide to the bank?
2. What are the causes of the problem encountered in your organization with related to the service provide to CBE? And what solutions were taken to solve the problems?
3. How your organization monitors or controls the qualities of the service that provide to the bank?
4. Do your organization providing the service as per service level agreement made with CBE?
5. Is there any formal channel of communication with CBE to discuss the performance, service? Quality and problem you faced?
6. Did your organization give an induction or training for employee that helps to perform their job better?
7. Do you think that your employees are skilled and perform their job as CBE expectation?
8. If you have any comments and suggestions?