

**OUTSOURCING PRACTICES AND THEIR EFFECT ON
OPERATIONAL EFFICIENCY: EVIDENCES FROM
COMMERCIAL BANK OF ETHIOPIA**



**Addis Ababa University
School of Commerce
Master of Arts in Human Resource Management**

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DECLARATION

I, the undersigned, declare that this study entitled “Outsourcing Practices and their Effect on Operational Efficiency: Evidences from Commercial Bank of Ethiopia’ prepared under the guidance of Abdurazak Mohammed (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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CERTIFICATION

This is to certify that Addisu Debebe has done a study on the topic “Outsourcing Practices and their Effect on Operational Efficiency: Evidences from Commercial Bank of Ethiopia” for the partial fulfillment of the requirements for the Award of Degree of Masters of Human Resource in management at Addis Ababa University with my guidance and approval as a university advisor.

Advisor’s Name: _____

Signature: _____

Date: _____

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LIST OF ACRIMONY

CBE	Commercial Bank of Ethiopia
HR	Human Resource
HRIS	Human Resource Information Systems
HRM	Human Resource Management
SLA	Service Level Agreement
SPSS	Statistical Package for Social Science

ABSTRACT

Outsourcing is a common trend to business organizations in Ethiopia. It is very easy task to find enormous well organized outsource service providing firms at these days. The last few years have brought significant changes to the functioning of banks. One of the most significant ways of adaptation to the changing economic environment that reduces operational costs is outsourcing. Thus, this study aimed to investigate the effect of outsourcing practices on operational efficiency towards banking sector. The study attended 80 % of responses rate. Simple random sampling (probability sampling) and judgmental or purposive sampling (Non-probability sampling) was applied based on the surveyed bank branches. Descriptive statistics like frequency and percentage were employed to analyze background information of respondent and inferential analysis was conducted by regression and correlation analysis. Validity, reliability and pilot tests were done. Thus, this study found that this bank has been mainly used outsourcing to focus on core functions, to spend more time on strategic issues, and to assist growth. Services this bank obtained from the service providers has been very satisfactory after outsourcing. In addition, outsourcing janitors inadequately allow focusing on core business function. There is an alignment between the bank service requirement and capability of service provider. Moreover, outsourcing motives, outsourcing functions, outsourcing challenges and outsourcing quality have a significant effect on operational efficiency. Thus, this study concluded that outsourcing motives, outsourcing functions, outsourcing challenges and outsourcing quality enhance have an operational efficiency in banking sector. This study suggests that this bank should maximize giving feedbacks to the service provider, as it benefits the organizations and the service providers as well as employees.

Key words: Efficiency, Operation, Outsourcing

CHAPTER ONE

INTRODUCTION

In this chapter, background of the study, statement of the study, objective of the research, research questions, significant of the study, scope of the study, limitation of the study, and organization of the study are included and discussed.

1.1 Background of the Study

When an outsourcing service has been defined as the business functions of an organization is done by people who are not full-time workers of the organization. In contemporary settings, organizations are using outsourcing service providers for different and various reasons (Seth, 2011). Currently, business organizations are using outsourcing services of their different business functions from outside service providers. According to Power (2009) definition, outsourcing is made up of two words – “out” and “sourcing”; sourcing refers to “the act of transferring work, responsibilities and decision rights to someone else. In addition, Ashley (2013) defined outsourcing as the transfer of all of risk, accountability, and responsibility to the service provider or external entity. In brief, Anikin & Rudaya (2012) define outsourcing can be defined as the process of delegation of operations or jobs to the third party, who can do it better, cheaper and faster.

Depending on level of control over performance of outsourced function, outsourcing can be separated into internal and external types. Partial or selective outsourcing is “the delegation of certain functions or business processes to outsourcer, while set of mutually related functions are performed by company itself” and full outsourcing refers to “the delegation of separate function to outsourcing company with entrusting it with full responsibility for function’s performance (Vashita, 2009). Engaging in outsourcing allows an organization access to expertise, knowledge and capabilities found outside its bounds. Outsourcing initiatives have evolved from short-term projects focused on cost savings to executive-level business strategies that enable companies to gain – and sustain – revenues and profits in the competitive global marketplace (John, Clyde, and Bonifazi, 2006).

Outsourcing dates back to the 1970s. Initially it only involved IT-related issues, but gradually more and more enterprises realized that they could not be experts in more than one or two fields.

This conclusion made them get rid of various areas of activity and entrust them to specialists. Study conducted by Fortune magazine (Fortune Media Group Holding an American multinational business magazine and its head quarter found in New York City, which provides global business insights, in-depth analysis) over 90% of business firms using a service of outsourcing, and estimate of Europe market alone such outsourcing services was US\$27 billion, and it is increasing ascending from time to time. Initially, outsourcing was only used by large organizations, but now these days it is becoming known by small business P.L.Cs or firms (Koszevska, 2004). The wider use of the outsourcing service in different sector markets were created by the intensive business competition pressures and globalization (Koszevska, 2004). As a result of complexity of the business environment, instant technology advancements changes, non-stable demands in the market, the business firm should search new methods and technologies to exist as well as to have competitive advantage over other.

In Ethiopia case, it is possible to say that the awareness of outsourcing service and its implementation is so immature and found in the stage of infancy. In spite of this, very few courageous business organizations decided and took some stages to transfer their non-core business functions to the outsourcing vendors (Betelhem, 2017). Mean whilst, most of the outsourcing services in Ethiopia are delimited on non-core business functions such as janitor service, security service, and recruitment services (Merese, 2007). The UN agencies who are working in Ethiopia, like other business organizations, they were transferring their non-core business functions like Security, Janitorial activities, Gardner, Messengers and Loading and Unloading activities to outsider outsourcing service providers.

In Ethiopia, especially the banking industry, unlike the other sector or industry, using the outsourcing service particularly non-core activities more than others aggressively. Based on the researcher understanding, the reason for this was the competitive market pressure of the banking sector which requires this service to have. As we know in the Ethiopia context new banks are establishing time to time. Even if, their quality of service is under question and full filling the world banks quality standards. Hence, because of the above reason, banks putted under pressure to require and use the service to be competitive and to keep their position in the market. Even though, we mentioned the banking sector as an example, many Governmental or non-governmental or P.L.C Companies are using the service better than the recent decades.

Currently, the perception for outsourcing or an understanding of it is growing gradually in Ethiopia .But still needs additional work. Organizations transfer some non-core functions to the service providers than the basic or main functions. They do not need to transfer the main business functions to the service providers. It requires a future research to say the actual reason for that.

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 in lower level with the exception of outsourcing some non-core functions like security and janitorial services (Betelhem, 2017). Commercial Bank of Ethiopia (CBE) has practiced the outsourcing services for more than 11 years. And it faced different problems in the quality of service require. The services which provided are below the service quality standards and most of all the bank has not focused on its core activities since there are still hassles to work on (Meresa, 2007). CBE is stretching throughout the country aggressively while outsourcing some of its non-clerical works ,there is a problem of how to measure the quality of service that which provided by the service providing company as the bank indicated on its website (CBE, 2021).

In Ethiopia different researchers had conducted a research on outsourcing in different sectors mainly engaged in challenges and practices; the effectiveness of outsourcing practices and its role on daily operational efficiency have been ignored. Most of the studies dealt about some practices about outsourcing, challenges, benefits, or opportunities of outsourcing, about the general concept of outsourcing, or the effect of outsourcing on the performance of the organizations. For example, Yosef (2020) assessed job satisfaction outsourced employees in United Nations agencies in the town of Gambella; Workalemahu (2015) and Meresa (2007) focused on benefit and challenges of outsourcing practices and Robel (2004) interested in perception of bankers towards the challenges and opportunities of outsourcing practices in the banking sector. These studies determined and reported about outsourcing challenges, opportunities and benefits while using questionnaires as the appropriate tool. These studies used qualitative data only from few outsourcing practices that would be inappropriate and may lead to subjective interpretation of the results. Thus, both qualitative and quantitative (mixed) research approaches may

be necessary at this time to obtain relevant and accurate information. This may lead to it is time to evaluate the outsourcing practices and their effect on the efficiency of daily key operational activities of banking organizations.

In this study, the researcher preferred to see things from another direction or angle that others didn't and to conduct a study on the effects of outsourcing of non-core functional activities on the daily operational activities and efficiency in the banking sector especially on the service providing bank. After understanding and identifying the gap from those recent studies, this research was conducted to fill the gap by working on assessment of outsourcing practices and their impact and effects on the efficiency on daily key operational activities in the case of commercial Bank of Ethiopia .Still, there is no researcher conducted a research on the efficiency of key daily operational activities related with outsourcing. So the researcher preferred to bridge the gap on this.

This research is cross- sectional research study and the research design is explanatory research design. And it gave an emphasis on the variables namely outsourcing motives, outsourcing challenges, outsourcing functions, & outsourcing quality also the dependent variable is operational efficiency.

1.3 Research Questions

- To what extent outsourcing motives behind outsourcing non-core business functions influence efficiency of daily key operational efficiency at Commercial Bank of Ethiopia?
- How outsourcing functions in terms of security guards, lobby person, messengers, and janitors affect efficiency of daily key operational efficiency at Commercial Bank of Ethiopia?
- To what extent outsourcing challenges influence efficiency of daily key operational efficiency at Commercial Bank of Ethiopia?
- To what extent outsourcing qualities influence efficiency of daily key o operational efficiency at Commercial Bank of Ethiopia?

1.4 Objectives of the Research

1.4.1 General Objective

This research general objective is to evaluate the outsourcing practices and their effect on operational efficiency at Commercial Bank of Ethiopia.

1.4.2 Specific Objectives

- To investigate the effect of outsourcing motives behind outsourcing non-core business functions on operational efficiency at Commercial Bank of Ethiopia.
- To examine the effect of outsourcing functions in terms of security guards, lobby person, messengers, and janitors on efficiency of daily key operational efficiency at Commercial Bank of Ethiopia.
- To assess the effect of outsourcing challenges on efficiency of daily key operational efficiency at Commercial Bank of Ethiopia.
- To test the effect of outsourcing qualities on efficiency of daily key operational efficiency at Commercial Bank of Ethiopia.

1.5 Significant of the Study

It is expected that the findings are beneficial to various organizations and individuals like Commercial Bank of Ethiopia, other banks, government, researchers, employees, managers and others. Significance of this research is in analyzing current state of outsourcing practices in Ethiopia commercial bank. It is significant that, at least in some jurisdictions, like in Ethiopia, when business is outsourced, the vendor is commissioned, and also the legal services and social issues in the outsourced spheres will be reduced.

Commercial banks will be benefited using this study as it gives clues for these banks about how to effectively practice outsourcing to reduce additional labor costs and social services. This helps financial institutions in Ethiopia will be more competent and more efficient. The banking sector will be beneficiary as this study gives clues for operational efficiency to play an important role as a resource mobiliser. Overall, they will be learned how successful outsourcing is performed. Furthermore, the government will be recipient of this study as it gives a clue for efficient

management of labour and the outcomes of outsourcing activities for economic and social development.

Bank managers will obtain information to be an outsourcing leader in this more fierce competition. It exerts downward pressure on costs, reduces slacks, provides incentives for the efficient organization of production, and even drives innovation forward in the balancing operation across their businesses. Employees will be so beneficiary as this study addresses organizational challenges in outsourcing, and focused on outsourcing qualities and functions. As well as outsourcing became a systematical study for many of researchers, it started to bear many positive and negative characteristics from theoretical view, while the reality for organizations can be different.

It also provides the researcher an opportunity to gain deep knowledge in the concepts of outsourcing business functions. To the best of the researcher knowledge, there is no deep research conducted on the effects of outsourcing practices on the efficiency of daily operational activities in the banking industry and other business entities. Furthermore the findings of this study may also serve as a for further research in the area. Certainly, outsourcing is a wide-spread activity which is practiced nearly by every business sphere, so, it has to be taken into account that all features presented by scientists, who analyze outsourcing phenomena, are applicable. Therefore, the objective of this research is to identify the effectiveness of outsourcing practices on banking operational efficiency and it is focusing on benefits gained and risks faced particularly by Ethiopian banks.

1.6 Scope of the Study

This study is restricted in geographical, theoretical and methodological issues. Outsourcing consists of different activities and each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. However, this study engaged in outsourcing motives behind outsourcing non-core business functions, outsourcing functions in terms of security guards, lobby person, messengers, and janitors, outsourcing challenges, outsourcing qualities and efficiency of daily key operational efficiency. This is due to the fact that the most significant advantages of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility. This study focused on handing over noncore

activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning.

This study is limited to commercial bank of Ethiopia branches under Kirkos District. Also the study includes Human Resource departments which are found under head office and Kirkos District. This limitation of the scope was due to the closeness, availability & accessibility of data to the district. It assessed the impact of outsourced activities or practices and their effects on operational efficiency in terms of service quality, service satisfaction, and time consume. The study includes CBE employees, branch managers, branch line managers, managers of HR under Kirkos district & Under Head office HR. The study is restricted to five variables in which the four of them are independent variables and the rest one is dependent variable. This study is a one-time survey or cross-sectional study, used quantitative research technique and the research design delimited on explanatory research design. The scope of this research in terms of location is the capital city of Ethiopia Addis Ababa. The research covered commercial bank of Ethiopia as an institution and its own other sub parts like District as well as Branches which are located in Addis Ababa. The researcher chooses to apply explanatory research design and to follow quantitative research approach. The sampling techniques of the population are simple random sampling and Judgmental samplings. The time period or scope of this research commences from April to June, 2021.

1.7 Limitations of the Study

This study is limited to Commercial Bank of Ethiopia Kirkos district HR, Head office HR department, & selected Branches under Kirkos district. The study focused only on the efficiency of daily operational activates or services of the bank. It is unable to cover Absolut efficiency on business performance or financial performance of CBE. The study was also unable to cover the service vendors, its customers, & all districts located in Addis Ababa and the rest of the country due to in proximity to those districts and the current Covid -19 pandemic which cause constraints to cover up all CBE parts. This study is explanatory research design that explains the cause and effect points of the research problem & the technique of the study is quantitative research technique in which purposive or judgmental sampling(for respondents of CBE Managers) and random sampling (for the respondent of employees of CBE) was used. The final result of this

study is not complete and couldn't explain the outsource practices and their effects on the daily operational activities in a complete manner of the bank because of the listed delimitations of this study.

1.8 Organization of the Study

The research paper is organized in to five chapters. Chapter one discusses the introductory part of the Research which includes back ground of the study, Back ground of the Organization, significance of the study, statement of the problem, objectives of the study and scope of the study and limitations are incorporated. The second chapter deals with review of theoretical and empirical literatures while the third chapter provides details of research methodology, research design, sample frame and size, source and instrument of data collection, the study variables, the procedures and the methods of data analysis. Chapter four includes results and discussion of the research. The last chapter portrays summary and conclusion of the research and recommendations are forwarded based on the findings of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

2.1 Theoretical Literatures Review

Different scholars tried to define outsourcing through different techniques which were based on the type of business functions outsourced and their locations. The following scholars gave definitions and terms about outsourcing: Outsourcing is “the act of obtaining services from an external source” (Brown and Wilson, 2005). According to Power (2009), outsourcing is made up of two words – “out” and “sourcing”; sourcing refers to the act of transferring work, responsibilities and decision rights to someone else. Outsourcing is related to the allocation of risk and responsibility for performing a function or service to another entity. Brown and Wilson (2005) describe it as outsourcing is an action of getting outsourcing services from external service providers”. Outsourcing is a strategy to get and use third party employees and resources to perform business activities which were handled by internal organization employees and resources (Handfield, 2006).

Outsource magazine (2011), defined it as: Outsourcing is when business operation was performed by internal employees of the organization that could be transferred to third party service provider via a contractual agreement for the required time limit. Outsourcing is “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources” (Handfield, 2006). Business process outsourcing is “it is a maneuver of business processes from the organization to the third party or external outsourcing service agent” (Duening and Click, 2005). As Aran and Patel (2005) about outsourcing “it is a process of contractual agreement that handing over one or more businesses process to a third party service provider, then the third party will take over the management, support, and infrastructure of the whole process of the organization” According to the definitions of the above different writers, it is easy to notice that the writers come to a common understanding & agreements that outsourcing could be summarized in the functions of make or buy decisions, handing over parts of the non-core business functions to a third party outsourcing service providers or experts, and the business firm should focus only on core business functions and activities to increase job effectiveness & efficiency, cost reduction, and profitability.

Beaumont and Sohal (2004) gave explanations for in-sourcing and Out-tasking mainly on their difference from outsourcing: In-sourcing means implementing outsourcing's discipline and terms to internal suppliers, often having internal suppliers to engage in competition with external suppliers of outsourcing. Out-tasking cannot work being done or the business function outside the organization property, but the organization maintains the full monitoring & controlling right over the business operation. The outsourcing service provider has no mandate and performs a given task. Partnering agreement states that the client or an organization passes decisive decision for how the work is done by the service provider and it is a hierarchical sequence of decisions. For the business organization, the substantial decision of the company is whether to outsource some parts of the firm business activities or not to outsource. Outsourcing decisions can be very hard and complex in nature. The reason for this is in the globalization & modernization era, modern organization's had created and they used to applications which tend to be integrated with each other, sensitive (weak task performance may affect the organization's good will); .

The measurement tool used to the outsourcing decision were intangible and multidimensional; in addition to this, it is hard to estimate the savings cost, the business firm should consider non tangible effects such as freeing up managerial time and possible dependence on the outsourcing agents (Nicholas Beaumont and Amrik Sohal, 2004). Although various organizations have tried to look at what the different Authors have written and put it in consideration in their bid to outsource, they have not fully met their intentions like cost reduction, efficient and effective service provision from the service providers to whom they outsource their activities. This is partly due to the ever increasing prices of products which also mean increase in prices of services being outsourced. Erbet & Sayed Ahmed (2005) defines outsourcing as sub-contracting a process to an external company.

McCarthy and Anagnostou (2004) described it as an agreement in which one company contracts out a part of their existing activity to another company. Momme (2001) defines it as "Outsourcing is the process of establishing and managing a contractual relationship with an external supplier for the provision of capacity that has previously been provided in-house or has not started yet. According to the above definitions, the authors came to a common understanding that there are four parties involved for outsourcing to come alive. These

are the outsourcer company, the service delivery company, the service being outsourced and the agreement or the ground between the two companies. Also these authors pin pointed that outsourcing is a process of transferring or contracting one or more activities or responsibilities to another or external company which enables them to use outside source in managing the whole process.

2.1.1 Theories of Outsourcing

It is frequently accepted that any phenomenon can be described through a series of theoretical frameworks based on the corresponding approaches. Naturally enough, outsourcing has been approached applying a series of different theories, which can often lead to confusion among researchers (Busi & McIvor, 2008). This part of the study will focus, with a few exceptions, on the models published during the past 25 years as they contain the solid knowledge of previous researchers and they ensure the minimum required time lines.

2.1.1.1 Transaction Cost Economics theory

The Transaction Cost Economics (TCE) theory has traditionally been the most widely-used outsourcing theory. It is considered that the TCE theory provides the best decision-making tools in order to assist organizations in deciding which of their operations should be outsourced and, thereafter, to prepare themselves in order to implement the necessary organizational changes arising from outsourcing. The characteristics of this model allow for its implementation both at the relationship management phase and at the reconsideration phase. Another extremely useful feature of the TCE theory is that it can be used for the analysis and selection of outsourcing contracts, which are often of great complexity.

A number of researchers have approached the phenomenon of outsourcing using the TCE theory. Firstly, in their research on decision-making with regard to the outsourcing of IT operations, researchers Lacity and Willcocks (1995) explored the phases of preparation, vendor selection, relationship management and reconsideration, from the viewpoint of the TCE theory. Eight years later, the same researchers (Aubert et al., 2004) returned with a new model, which combines again the two theories in order to interpret exclusively the preparation phase of outsourcing. The role of research and development in the process of outsourcing on the

basis of the TCE theory has been emphasizing on the need of organizations to safeguard the intellectual property of their patents. Thus, this theory signifies this study as it viewed outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. The most noticeable use of this theory in outsourcing process is the preparation phase for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor.

2.1.1.2 Core Competencies Theory

This is based on the Theory of Resources and is an evolution thereof. Researchers Prahalad and Hamel (1990) defined Core Competencies as the collective knowledge of an organization, especially with regard to the ways of combining different productive skills and the integration methods of various different technologies. An analysis of the vendor's competencies is, according to the Core Competencies Theory, the main factor that determines the success of an agreement. The Core Competencies Theory has also been used to study the phases of relationship management and reconsideration. The Core Competencies Theory is the second most popular approach in the academic research related to outsourcing. This theory helps to investigate whether the outsourcing of business operations related to system of an organization may improve its organizational skills. Their research focused on the phases of preparation and reconsideration.

2.1.1.3 Relational Theory

The Relational Theory provides explanations on how enterprises may acquire and maintain a competitive advantage with regard to their relationships with other organizations (McIvor, 2005). This model has been used to study the phases of transition, relationship management and reconsideration. Therefore, the Relational Theory is the only approach that may be applied to the investigation of all phases of the outsourcing process. Using the Relational Theory, this study can be effectively examine the factors that may be used to make decisions at the phases of preparation and relationship maintenance, aiming to make choices that will contribute to the creation of strategic alliances.

2.1.1.4 Resource-Based Theory

The main premise of the Resource-based Theory is that resources and capabilities can differ significantly among organizations and that these differences remain stable. When the resources and capabilities of an enterprise are mixed and used in an appropriate manner, they may create a competitive advantage for the enterprise. This theory applies mainly to the Preparation phase of the process in order to identify the operations that must be outsourced, as well as to the Vendor Selection phase, allowing for the selection of the vendor with the most appropriate resources. The theory has also been used to explain the decisions made by the organization during the Relationship Management and Reconsideration phases (Kutsikos & Mentzas, 2011). Alvarez-Suescun (2010) proposes a model that combines the Resource-based Theory with the TCE theory in order to interpret the implementation of outsourcing processes in respect of IT operations. The model mainly focuses on the Transition phase and suggests that the Resource-based theory is the most appropriate approach for its interpretation. Therefore, this theory helps to understand the benefits of the outsourcing process are determined by the quality of the relationship at its establishment and by the care given by contracting parties to the development of the relationship.

2.1.1.5 Evolutionary Economics Theory

The backbone of Evolutionary Economics Theory premises comprises a series of six basic assumptions. The first assumption is that individuals and organizations can never be fully informed and that they must adjust and optimize their performance at the local instead of the global level. The second assumption is that the decision-making process of individuals and organization is subject to rules, norms and institutions. The third assumption is that individuals and organizations may imitate, to a certain extent, the behavior and rules followed by their peers in order to gain self-knowledge and create innovation. The fourth assumption relates to the fact that the imitation and innovation processes are, to a great extent, stable, continuous and cumulative. However, they may be interrupted by occasional disruptions due to exceptional circumstances. The fifth assumption focuses on the fact that the interaction between individuals and organizations takes place in an unbalanced manner. Therefore, its success or failure is conditioned by external factors, the persons involved and their methods. Finally, the processes of change occur within a framework determined by the aforementioned five assumptions. These

assumptions create a framework where changes have an unpredictable result; they are irreversible (Mahnke, 2001). Thus, this study is beneficiary from Evolutionary Economics theory to understand the outsourcing process, i.e. the phases of Preparation, Transition, Relationship Management and Reconsideration

2.1.1.6 Knowledge-Based View

The Knowledge-based View provides an understanding of how individuals cooperate to produce goods and to provide services. The Knowledge-based View establishes two methods for knowledge-sharing among partners (Nasiopoulos, Sakas, Vlachos, 2014). These are knowledge generation and knowledge application. The Knowledge-based View applies to outsourcing in order to demonstrate that knowledge-sharing at the relationship management phase of the outsourcing process is positively related to the success of the outsourcing agreement (Sakas & Kutsikos, 2014; Kutsikos & Mentzas, 2012). The Knowledge-based View is the foundation of the model proposed by (Lee, 2001), which attempts to explain the management of the relationship between the two contracting parties of the outsourcing process. Accordingly, this helps to understand knowledge-sharing that is one of the key success factors of an outsourcing process.

2.1.1.7 Agency Theory

This theory focused on the relationship between an organization's management and all other stakeholders (agents). This theory has been applied to outsourcing in order to interpret the relationship between the organization and the vendor. The theory suggests that the use of continuous monitoring and the reinforcement of the ties between two organizations can address any problems which might arise (Sakas & Kutsikos, 2014). In addition to relationship management, this theory has been used to explore the Preparation phase and, in particular, the stage where the organization considers all potential Vendors and decides on which type of relationship it wishes to develop with them, whereas it has been used, to a lesser extent, to analyze the Reconsideration phase.

2.1.2 Motives for Outsourcing

There are so many reasons that can account for why a company would want to outsource its human resource activities. Miller (2011) conducted a survey on selected respondents

that included top executives of various companies. The study revealed that 86% of the respondents felt that the introduction of outsourcing in the HR of their various companies has had a positive effect on their companies and had increased the overall performance of their respective companies. Miller's study further revealed several reasons why management would want to outsource its HR activities. The study revealed to include focusing on core business activities and functions of the organization, outsourcing to quickly attain the goals of the business and focusing on product innovations to increase its competitive advantage. The other reasons included helping an organization to focus on market changes and also having enough time to look at strategies to boost revenues and profits of their organizations.

As the advocates of outsourcing indicate that the contract holder of the outsourcing service can minimize labor costs with providing benefits like predictable costs and accountability; by the result of this, the organization will focus on the core business areas and allocate the saved cost to the main business activities Jurison (1995, 2002). Outsourcing for any organization can be a very demanding task and difficult process in both companies which enables them to use outside source in managing the whole process.

The reasons for outsourcing could be described by different authors. As the description of outsourcing by S. Chatterjee, R. Chaudhuri (March, 2010) "Internal organizational stability and flexibility in obtaining improved satisfaction and better service with the outsourcing project" believes that the outsourcing services or projects are providing better service to organizations by the results internal organizational stability and flexibility happened in those organizations which made them satisfied by the outsourcing service. J. Harasim (2005) says about outsourcing that "Willingness to get rid of burdensome administrative tasks" he believes that outsourcing some business functions of an organization will help the organization and the management to focus on core business functions than non-core business activities which means outsourcing could rid of the burden of the organization and the management from the non-core business tasks. Z. Shi et al (2005) believes on outsourcing and said "Assemble knowledge from suppliers" that means outsourcing is a technique to collect and assemble different knowledge from different service suppliers and helps the firm to develop core competency and to have competitive advantage in the business market. Out of the above descriptions of different authors of outsourcing of practices for organizational functions, willingness to get rid of burdensome administrative tasks,

and assemble knowledge from suppliers are more appropriate reasons of outsourcing in commercial bank of Ethiopia in this study. In addition to this, let's have a look some additional reasons of outsourcing which might have similarity with the previous once , and might be the reasons of outsourcing in CBE and it was discussed by Prasad and Prasad (2013).

The high level of competition around the world has culminated into the effect whereby companies are not able to increase their production cost although there are increases in asset costs (Mouhammed,2008). According to Potkaany(2011),it for institutions acute to adopt tactics that are aimed at lowering asset costs. Stroh and Treehuboff (2003) described outsourcing as an effective strategy that can help an organization to give out its non-core 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. Growth in organization has globally put a pressure on organizations to put much investment in human resource (Potkany,2011). This investment can however be costly and can dramatically affect the operational costs of many companies. Companies would also need to maintain and develop key human resource personnel that are needed to manage and further administer the large size of the workforce.

HR advantage in the market that it operates, Hansen (2009) emphasized that outsourcing HR activities helps in the reduction of the load of work that employees have to undertake and further allows the company to have the time to focus on strategic decisions and further develop the core competencies of the organization. Outsourcing is needed to maintain efficient HR services at a price cheaper than what the focal company can offer. This situation according to Endow and Ertel (2006) enable the organization to focus on the main objectives of the company and further invest in its core competencies, helping the company to be effective in terms of cost.

Software applications and other technological advancements have impacted on the management of human resource of many organizations (Stone, 2009). According to Stone Human Resource Information Systems (HRIS) and other HR software has been and continues to play very critical roles in the managing of people in various decisions and further develop the core competencies of the organization. Stone indicated that HRIS has played an

enormous role in the improvement of most organizations and have positively affected performance thereby increasing the productivity of most organizations that have adopted them. The major challenge that was discussed by Stone was that HRIS needs to be constantly updated and this requires huge sums of money to be invested which comes as a great cost to the company and which must be done any time there is an upgrade of the system.

Lyons 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. There are opportunities to have access to capabilities of suppliers into the products and services of the customer organization rather than attempt to replicate the capabilities of a supply network. Several researchers have addressed the importance of outsourcing risk research. However, a consistent definition of outsourcing risk has not emerged. In rational decision theory, the concept of risk reflects the variation in the distribution of possible outcomes, their likelihood and their subjective value (Wullenweber,2007). The theory suggests that decision makers deal with decisions under uncertainty in a rational way, i.e., by computing different alternatives and selecting the option that best suits their personal risk return profile, which is generally risk averse .However, empirical studies indicate that this theoretical view is not consistent with how managers deal with risky choices in reality: several studies have shown that managers follow a less precise calculus, not using accurate probability calculations. Instead managers follow a magnitude of undesired outcome concept neglecting the outcome probability. Therefore, perceived risk theory (Wullenweber, 2007) will be used to analyze managers risk perception.

2.1.3 Outsourcing and its Quality

Numerous researches have been conducted to analyze outsourcing benefits. There are many reasons why companies choose to outsource. Academic effort has concentrated on factors that influence the outsourcing decision. Wullenweber (2007) explains the outsourcing decision from theoretical point of view and have been tested thoroughly in empirical studies. Fundamentally, three drivers for outsourcing have been identified: economic, strategic and technological reasons (Potkany, (2011).

The most important economic driver is anticipated cost reduction, as several researchers report. Companies are eager to reduce their overall expenditures and discuss any sourcing scenario to find out which is the most cost effective one. On a strategic level the demand for more flexible process and business systems which support the business in times of rapid change and global reach is often quoted. This desire often results in the concept of focusing on core competencies through divestment of non-core areas. In times of tight budget, companies need to allocate capital in the most efficient way and source out those activities which not provide substantial value to their core business. Technologically, companies expect to improve their operations through the access to new technology and skilled people by sourcing to a service provider specialized in the respective area (Wullenweber, 2007). Thus, quality improvement is often a vital reason to outsource.

2.1.4 Outsourcing Functions

Davidson (2009) emphasized that some of the functions that are internally performed by the human resource department are not critical and that they could easily be outsourced to other entities. According to Davidson (2009) one of the aspects of HR that can easily be outsourced is recruitment. Organizations have specialized in recruitment services to the extent that they have advanced technologically and have developed websites and other technologies that can be accessed by a lot of applicants and this increases the chance of selecting the most suitable applicant for a particular position being advertised by companies. This complex activity would have taken enormous time of the company and this also requires experts who are well endowed in those areas of practice. In this study, one of the inputs are as independent variables is outsourcing function based on security guards, Lobby persons, Messengers, and janitors and the output are as dependent variable is daily operational efficiency. Any changes in the input brought about by the way outsourcing process is carried out will have an effect on the outputs. Now let define the services and identify the variables one by one)

Security or safety service: safety service means the action, assistance, and supervision provided by safety service providers to manage the identified present danger safety threats or impending danger. The security guards duties and responsibility is to protect property, controlling access to

buildings and protecting employees, guests and public, monitoring alarms and surveillance systems, Patrolling areas and performing security checks, writing activity and incident reports. Lobby is a room official in a building used for entry from the outside. Sometimes referred to as a foyer, reception area or an entrance hall, it is often a large room or complex of rooms (in a theater, opera house, concert room, cinema, etc.) adjacent to the auditorium. Lobbying is related communicating by any means, or paying others to communicate by any means, with any legislative person with the purpose of influencing any legislative action. Messenger is also a main function that includes a person who carries a message or goes on an errand for another, especially as a matter of duty or business. A person employed to convey official dispatches or to go on other official or special errands: a bank messenger (Wullenweber, 2007).

Janitorial service is related to commercial property cleaning, including professional offices, educational, medical and industrial business cleaning. Some commercial janitorial services can include maintenance or property management services. Those who perform the work are referred to as custodians, janitors, caretaker, porter or cleaners (Davidson, 2009).

2.1.5 Outsourcing Challenges

Outsourcing explained by J. T. C. Teng et al (January,1995) “Lack of resource gaps acquiring resources from outside the firm boundaries by sourcing arrangement”. In any organization, lack of professional human resource can happens in different areas of business functions. Sometimes it could be hard to fill the resource gap by internal work force. Therefore, filling the gap by the outsourcing labor force is the ultimate solution. A. Vashista (2007) says about outsourcing “ Lower labor costs Technological advances” believes that outsourcing the business functions to vendors will cost an organization lower labor cost than hiring permanent employees which requires higher costs for recruitment, hiring ,training and other related costs .So according to the author, it is better to use outsourcing service and technology than hiring permanent employees in terms of cost reduction.

Another challenge that was also highlighted by Hansen (2009) who was that some organizations may also lack the expertise that is needed in the handling and maintenance of the HRIS systems. Organizations would also have to invest a lot of money in the training and development of the experts to man that process. It is therefore cost effective to

outsource the HRIS to another supplier that can undertake such activity at a lesser cost because it enjoys economies of scale. It is prudent that an organization outsources its HR activities such that it can concentrate on its core competencies and further and save costs that are associated with performing those activities that are not core to the operations of the company. There are several factors that motivates HR outsourcing that includes concentration on core competencies and cost saving. That notwithstanding a major driver for outsourcing HR activities has been the focus on HR as a value-adding function at the strategic level.

2.1.6 Operational Efficiency in the Banking Sector

Operational efficiency entails the capability of an organization to deliver products or services to its customers in the most efficient manner possible , while still ensuring the high quality of its products ,service and support .it' not about costs cutting –it is about How work done (Wullenweber,2007). . Banks perform variety of operations ranging from basic or primary functions like day to day transactions at a branch to others that may be the agency or general utility service in nature .The transactions that are incidental to revenue/sales or sustaining the business are an important elements of the banking industry value chain. Banks performs various types of transactions and activates to support their banking business. These transactions may be including making or accepting payments, trading clearing and settlements of accounts, and custody. Knowing the operational aspects of banking is very important for understanding the value chain of the banking industry (Potkany, 2011).

Some of the daily main key operational efficiency included acceptance of Deposit. These deposits are generally taken through current accounts, saving accounts, and fixed deposits. Current account can be withdrawn to the extent of the balance at any time without any prior notice. Saving accounts are for encouraging saving by individual's banks pay interest as decided by central banks on the deposits. Lending of funds is also anther input. These advances can be made in the form of overdrafts, cash credit, discounting trade bills, terms loans, consumer credits, and other miscellaneous advances. The funds lent out by banks contribute a great deal to trade, industry, transport, and other business activities. On other example, cheques are used to facilitate trade and business by endorsement and withdrawal of deposit. Banks render a very important service to their customers by collecting their cheques drawn on other banks. It is the most convenient and inexpensive medium of exchange that does not require the actual movement

of cash from one transferring party to the other. Mainly, two types of cheques are often used bearer and crossed. Bearer cheque can be cashed immediately at bank counters whereas crossed cheques can only be deposited in the payee's account.

Banks also facilitate funds transfer from one place to another, leveraging the vast network of branches that are interconnected to each other. Many banking instruments are in usage for enabling transfer of funds from one account to another like bank drafts, pay orders, wire or mail transfers. Bank earns nominal commission by way of bank charges on some transfers. The bank issues a draft for the amount at its own branch which can be credited to another account which might be with a different branches or different banks. Banks collect the amount on behalf of the depositor which is known as the clearing process. Banks also provide service related to bill payments, payment of insurance premiums, collection of dividends, etc. Recurring payments can be automated for payments using the facilities extended by modern banks. Account – holders can directly pay from their account or using credit or debit cards for their electricity, gas, landline and mobile phone bills, and many more.

The growth of internet and e-commerce has transformed the banking industry and customers are fast moving from branch banking to virtual banking. Users with internet on pc or mobile can get connected to the banks website and avail a variety of banking services and functions. These services lower the transaction costs and add to the ease and speed of the transaction flow. Enormous outsourced employees in CBE are working in different fields today. Specially, in branches so many employees are working with CBE permanent employees within corporation.

In this study we will find out later the role of security guards, lobby persons, messengers, and janitors with the effect of their participation on the reduction of transactional cost (resource management), reduction of service delivery time (SDT) and instant transaction flow, service satisfaction as particular and to operational efficiency in general. The operational efficiency of the bank gives the way to keep the marketing share in the sector and to have a competitive advantage over other competitive banks in the industry. The successes on the operational activities of the bank gives an opportunity to develop own core competency as a bank on others.

2.2 Empirical Review

2.2.1 Studies across the Globe

Jerzy & Przemysław (2018) conducted an empirical study on outsourcing in the Polish banking sector. They described changes in the institutional shape of the Polish banking system after the Global Financial Crisis, and the role of outsourcing processes in it. They examined reasons for implementation of outsourcing, and the factors influencing the success of outsourcing. The paper also explained the most important risks and challenges of outsourcing. They discussed the role of outsourcing in Poland in several aspects, and from different perspectives. Analysis shows that the main reason for the application of outsourcing by Polish banks was striving to reduce operational costs. The first phase of outsourcing in Poland was to reduce employment, and outsource some tasks beyond the organization. That is why outsourcing is associated by employees with dismissal. The demand for outsourcing in banks in Poland has been influenced by many factors. Apart from the focus on cost reduction, there was a significant increase in the level of education among employees, which allowed for the employment by vendors of new staff with the right skills. They also see potential growth in the significance of Poland in the web of global banking outsourcing. This assumption is based on the analysis of comparative advantage of the country, often mentioned in World Bank reports, such as: well-qualified workers (high level of schooling, high learning ability, easy access to capital from European Union funds on entrepreneurship-supporting programs); political stability; benefits for foreign investors (i.e. Special Economic Zones); the developing of infrastructure; and overall development of the banking sector.

The study conducted by Gulzhanat (2012) analyzed outsourcing practices of Kazakhstan banks. Sample of this research consists of three banks operating in Kazakhstan: HSBC Bank Kazakhstan, BTA Bank and Halyk Bank. Results of face-to-face interview with managers of these banks reveal that, advantages and disadvantages of outsourcing vary according to its type and size. In spite of the fact that outsourcing became very popular topic among scientific works all over the world, there is no research done on outsourcing activities in Kazakhstan particularly, and especially in banking industry of the republic. From the analyses, it is obvious that outsourcing practices are not similar for all companies, as this particular

activity was considered in financial industry. Several results can be taken from this work. If a company is small and has limited resources, then it needs to outsource. However, outsourcing practices cannot always ensure such common advantage as cost reduction as it was observed in HSBC Bank Kazakhstan.

Ali , Reza ,& Sadra (2011) conducted a study to measure the impact of different items on increasing efficiency of a supply chain through outsourcing activities .They surveyed more than 38 active companies in the field of telecommunication equipment production in Iran. They considered control variables such as similarity between activities and productions, activity records and outsourcing records, and to gain exact results they chose 12 companies as the ultimate statistical population. The functional-goal variables are cost reduction, quality improvement, flexibility and service. The dimensions of organizational function include financial and non-financial function. The researchers had presented an empirical study and analysis to measure the impact of different items on increasing efficiency of a supply chain through outsourcing activities. The results of the survey indicated that outsourcing could lead to reduce cost, improve quality, increase flexibility, better financial and non-financial performance and services.

2.2.2 Studies Done in Ethiopia

Workalemahu (2015) assessed the benefits and challenges of current outsourcing practices non-core business functions at Commercial Bank of Ethiopia with reference to security, cleaning, driving and courier services. The findings revealed that the pros and cons of outsourcing non-core activities of the Bank. The most serious challenges were lack of internal expertise and the performance of outsourced driving service cause to increase cost, low loyalty and confidentiality to the organization. The Bank has poor monitoring and evaluation of the performance of the security, cleaning, driving and courier services, poor quality of outsourced service provider. Therefore, respondents have lost their confidence on the service being provided. Unlike to the regular staffs of the bank the outsourced employees had brought many benefits to the Bank in reducing administrative burden ,increasing flexibility, minimizing fixed costs, decreasing budget wastages and introducing better cleaning equipment.

Yanit (2020) assessed 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. 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.

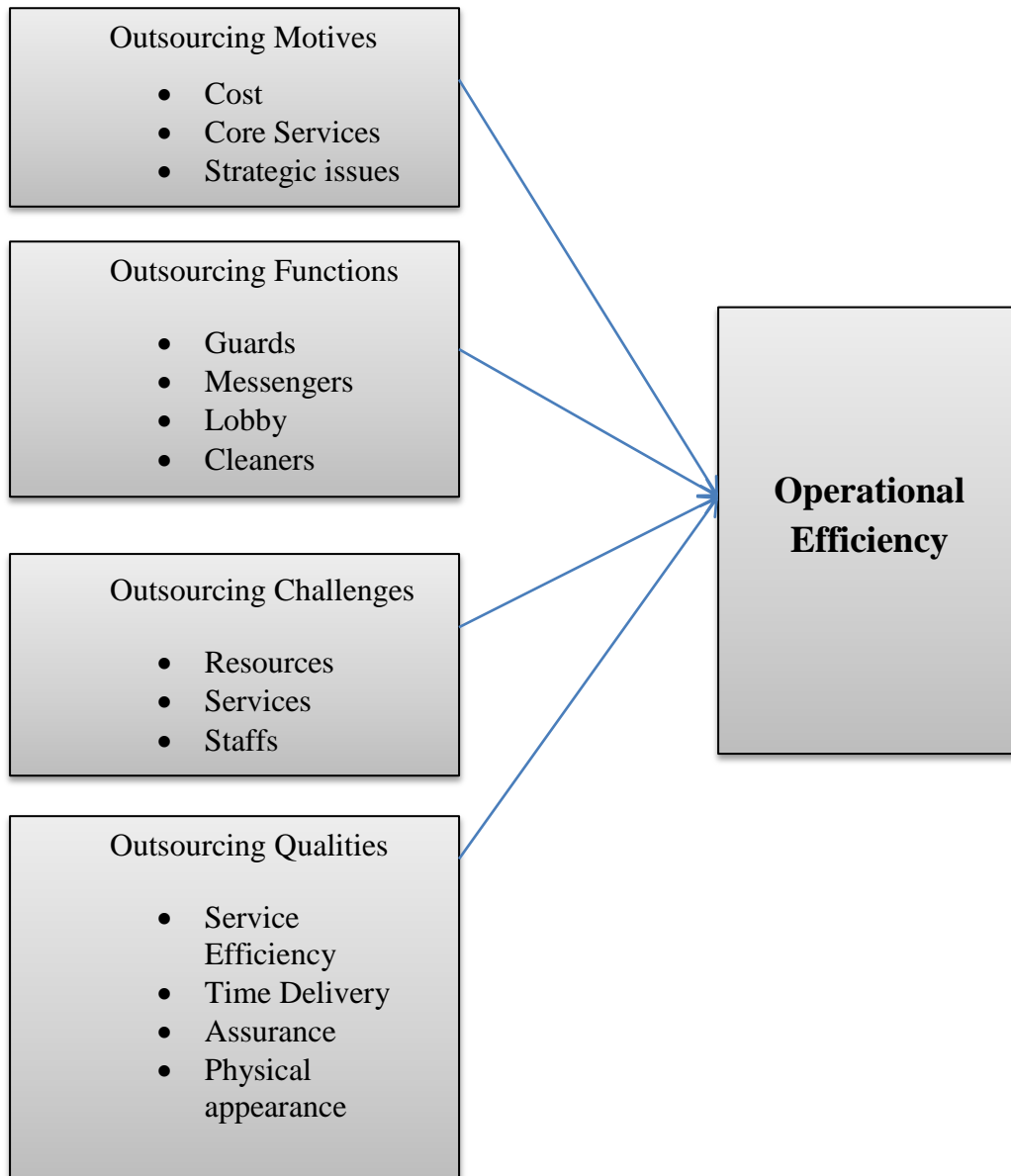
Tewodros (2017) identified effect of outsourcing noncore business functions on the company's performance the case of Commercial Bank of Ethiopia. Data were collected through questionnaires, interview and internal documents of the Bank. Descriptive statistic and frequency, correlation and regression were utilized to analyze the data. Interpretation is made on the mean, frequency, and percentage of data. The study's result has implied that the outsourcing practice of non-core business functions of the Bank has unsolved problems. Theft of properties, both the security staffs and drivers lack commitment and loyalty, have ethical problems and lack of support from stakeholders and top management as expected. On the other hand, some benefits are obtained by outsourcing the non-core business functions of the Bank. Among these outsourcing helps the Bank to focus on its core function, helps to minimize operating cost, avoid major investment in HR and reduce administrative burden of HRM of the Bank. Finally, the researcher suggests that the Bank should work hard to reverse the adverse impact of outsourcing by conducting due diligence on the delivering quality services, increasing customers' satisfaction and improving competitiveness & efficiency. The bank also ensures service provider's related work experience, ethical considerations, technical capabilities, the resource possessed are in a position to fit the requirements.

2.3 Research Gap

Workalemahu (2015) assessed the benefits and challenges of current outsourcing practices non-core business functions at Commercial Bank of Ethiopia with reference to security, cleaning, driving and courier services. Yanit (2020) assessed the effects of outsourcing on organizational performance. Tewodros (2017) identified effect of outsourcing noncore business functions on the company's performance. These previous studies ignored the inclusion of outsourcing functions, qualities, challenges and motives in their assessment of outsourcing practices for operational efficiency. These may create a lack of effectiveness of the outsourcing at the operational level that 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. This may be related to the actual risk is in losing the strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's operations. This also related to outsourcing quality that 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 banks quality of service if they don't have any input from their customers about how to improve. By outsourcing this function accompany can stretch the tactical part of each manager's job to supplier which permits the management team to spent more time on strategic issues as market positioning and product development. It is also indicated that 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. This helps to institutionalize a robust decision making process to govern the outsourcing relationship in such a way that hard-wires the operations to the strategic.

2.4 Conceptual Framework

Conceptual framework is a structure in which the researcher believes can get best explain the natural progression of the phenomenon to be studied (Camp, 2001). It is linked with the concept, empirical research and important theories used in promoting and systemizing the knowledge espoused by the researcher.



Adapted from Ali Nazeri , *et al.*, (2011)

Figure 1 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). According to the results of the literature review, the conceptual model consists of the inputs as independent variables and the output as

dependent variables. Any changes in the input will have an effect on the outputs or the dependent variable. In this study the researcher termed operational efficiency as a dependent variable and outsourcing motives, outsourcing challenges, outsourcing functions, and outsourcing qualities as an independent variables and will examine their relationships in the study.

2.5 Hypothesis

This study has the following hypothesis and proved them at the end of the research in analysis of variables, interpretation, and on the final result:

2.5.1 Outsourcing Motives

The reason behind many outsourcing decisions taken by most management is that they would want to focus on the core competencies of their organizations. This Potkany (2011) indicated will help the organization to maintain its competitive advantage in the market that it operates. Hansen (2009) emphasized that outsourcing HR activities helps in the reduction of the load of work that employees have to undertake and further allows the company to have the time to focus on strategic decisions and further develop the core competencies of the organization. Managers would have the necessary time to concentrate on the core activities rather than spending the time available on human resource activities that are becoming more advanced and highly technical with the introduction of technology.

- **H₁ – Outsourcing motive have a positive and significant effect on the efficiency of operational activities towards banking sector.**

2.5.2 Outsourcing Challenges

There are risks related with outsourcing that procurement managers or top management need to consider carefully and these may be; The probability of over depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive (Meresa, (2007). Jerzy & Przemysław (2018) stated that high prices being executed on suppliers due to increasing trends in outsourcing, the demand for suppliers is so high and has pushed the rates being charged by the suppliers to be high. This later increases the costs, yet outsourcing is all about helping firms cut costs. Manzi (2005) stated that there is a possibility that vital

company information may be at a risk of being linked to the company's competitors which is dangerous since some suppliers may be spies to the company. The tool that allows effectively allocates the internal and external resources and funding to reach the goals and challenges facing by modern business in conditions of dynamic insuperability.

- **H₂ – Outsourcing challenges have a positive and significant effect on the efficiency of operational activities towards banking sector.**

2.5.3 Outsourcing Functions

Even if the type of function that an organization give away for others differs in relation to core competencies, core activities, and critical functions within the organization, effectively all originations can use outsourcing to most of their functions and services. Outsourcing can be classified in to two categories as total outsourcing and selective outsourcing. In relation to the meaning of when we say total outsourcing, it means that organization give away or outsource the whole of the activities at the area of the chosen parts of the organization (Ali, et al., 2011). As the environment becomes gradually complex, faster and faster development of technology, with the consequent changes in the conditions in which any given enterprise functions, necessitate the search for more and new-fangled approaches which keep one ahead of one's competitors.

- **H₃ – Outsourcing functions have a positive and significant effect on the efficiency of operational activities towards banking sector.**

2.5.4 Outsourcing Qualities

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 (Jerzy & Przemysław, 2018). Thus, gathering customer feedback and using it to measure service quality should be a significant part of nearly any business's game plan. Positive 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 and it also recovers operating efficiency (Manzi, 2005). The development 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. 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.

- **H₄ – Outsourcing qualities have a positive and significant effect on the efficiency of operational activities towards banking sector.**

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the elements of research design and methodology that was applied in the study. It covers research design, research approach, population of the study, source of data, sampling frame, sample size, type of data collected, as well as how to analyze the data gathered was discussed in the chapter; it ends with ethical issues. Hence in the chapter all these sub-topics were discussed one by one.

3.2 Research Approach

There are three types of research approaches, namely, quantitative, qualitative and mixed research approaches. Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationships. Quantitative methods investigate phenomena through the collection of quantifiable data in numerical form and apply mathematical models and statistical techniques for data analysis. In contrast, qualitative research depends on words rather than numbers, and can be generally described as research the findings of which are not produced by means of quantification (Creswell, 2002). In Mixed methods, qualitative and quantitative methods can be combined in the research design to accomplish research aims Creswell (2012). This study examined the outsourcing practices and their effect on the efficiency of daily key operational efficiency. It employed testing the effect of outsourcing motives behind outsourcing non-core business functions on efficiency of banking. It examined the effect of outsourcing functions in terms of security guards, lobby person, messengers, and janitors on banking operational efficiency. In addition, it investigated the effect of outsourcing challenges and outsourcing qualities on efficiency of daily key operational efficiency. This study also described various aspects about outsourcing and operational efficiency of the studied bank. As result, the study used mixed research approach.

3.3 Research Design

The objective of academic research can be exploratory, descriptive, or explanatory. Exploratory studies aim for basic knowledge within the problem area. Descriptive research is appropriate

when a problem is clearly structured but the intention is not to conduct research about connections between causes and symptoms. Explanatory research is useful for studying relations between causes and symptoms (Creswell, 2012).

A research design in any research is thought as blueprint detailing what was done and how it was accomplished. The study is designed to see the effect of outsourced practices on the daily operational efficiency at Commercial bank of Ethiopia. The study is explanatory study design that sets out to explain and report the existing Outsource situation of the bank and to evaluate the outsourced practices and their effects on the operational efficiency at the Bank. It was based on the data to be collected through questionnaires and interviews from the employees of the bank mainly from Branch Managers line Managers and subordinates.

Accordingly, this study used the current status of service delivery quality in banking service and tried to see how the various service quality dimensions are practiced in surveyed company. In addition, this study investigated the causal relationship between outsourcing dimensions such as outsourcing quality, outsourcing functions, outsourcing challenges and outsourcing motives and operational efficiency. Thus, it can be presumed that this study employed both descriptive and explanatory research design.

3.4 Sources of Data

This 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, structured interview were conducted in Commercial Bank of Ethiopia and Managers of CBE Branches in Addis Ababa, Kirkos District HR Manager, and CBE Head office HR Manager are included in the data collection.

In an attempt to obtain first-hand information, the data was collected from samples through questionnaires and interview. Structured interview and closed-ended questionnaires prepared and administered to gather primary data from commercial bank of employees and managers. This instrument was preferred because it enables to secure information at a time. The rest of the data for this research was obtained from a body of secondary sources. To get secondary data relevant documents related to the study subject, the researcher referred service level agreement of the bank with outsourcing company on performance of outsourced employees

, mode of payment and expected service level , annual reports, the bank data base, recent researches managed by the bank on customer satisfaction, recent research by the bank on STD (service delivery time), websites of the bank and research papers to get information on theoretical frame work of the study.

3.5 Population and Sampling of the Study

3.5.1 Target Population

A population is the collection of all cases that conform to some designated set of specifications (Gravetter and Forzano, 2012). It is defined as the set of individuals (subjects), objects or events that have common observable characteristics that the researcher wants in the study. Cooper and Schindler (2006) also described population to include all the elements about which some deduction could be made. The population for this study is Commercial Bank of Ethiopia's Kirkos District branches, District HR Managers, Head office HR managers, Branch different level managers and employees. The total number of branches in Commercial Bank of Ethiopia's Kirkos District are 54 in number and the total number of target population in this research was 1620. Out of this, the total number of management staffs of CBE is 148. The total number of Branch managers at the total population for this research is 54, the total number of Business managers at the total population is 54, and the number of Operation managers at the population is 40. The total number of CBE non managerial employees is 1470. It consist one manager from Human resource Department at Head Office, one manager from Kirkos District Human resource department.

3.5.2 Sampling Method

Sampling is the method of selecting a representative subset of the population called sample. Sampling makes research more accurate and economical. It's the sampling method which actually determines the generalizability of the research findings.

The researcher of this study wanted to use or apply two sampling techniques namely Probability sampling & non probability sampling. In probability sampling (simple random sampling) each element of the population has a known non-zero probability of selection. In this technique the researcher would like to use this for selection of samples from out of CBE non managerial

employees who are currently working in different branches in different positions under Kirkos District. Non-probability sampling (purposive or judgmental sampling) technique uses non-randomized methods to draw the samples. The sampling method mostly involves purposive or judgmental method of sample selection instead of randomization. Participants are selected because they are easy to access, and are very significant for the success of the study. CBE Head office HR managers, HR managers of Kirkos District, Branch Managers under the district, and line Managers in Branches were selected by purposive or judgmental sampling technique.

3.5.3 Sample size

The population of the study includes selected branches of the bank at Kirkos District. The bank currently has more than 450 branches with 5 Districts at Addis Ababa City i.e. East Addis Ababa district, West Addis Ababa District, South Addis Ababa district, North Addis Ababa district and Central Addis Ababa district. The new structural reform decision by the new assigned management of CBE, the number of Districts enlarged from five to thirty Districts. Kirkos District is a new district which was created by the bank. As a result, due to some constraints and limitations like Covid-19 pandemic, proximity of the rest districts & bureaucracy issues, time constraint, constraint of cost, the researcher preferred to focus on Kirkos District Selected branches, HR department in Head office level, and HR department of Kirkos District.

The total target population of the study is 1620, and the sample size of the target population according to Taro Yemane formula calculation was 320. The sampling method was applied simple random sampling & non probability sampling (judgmental or purposive) technique in selecting the target population. 54 branches were included in target population. In the elected branches, the HR managers, branch managers, Business manager, operation managers answered the interview question, and employees of the Bank were filled the questioner form.

The Researcher determined the sample size using Taro Yamane (1967)'s sample size determination formula as it provides a simplified formula and the sample size is determined at 95% confidence level with an acceptable sampling error of 5%.

Therefore, this study used **Yamane formula** as follows:

$$n = \frac{N}{1 + N(e)^2}$$

N=population size

n=sample size

e=margin of error

After applying the formula the sample size was 320.

Table 1 Simple Size by Graded Branches

No.	Location of Sample	Number of Employees	Sampling Proportion	Sample Size
1	Grade Three Branches	890	0.1975	176
2	Grade Four Branches	730	0.1975	144
Total no. of Employees		1620		320

Source: CBE, 2021

Out of 54 branches, the criteria of selecting branches were the number of their customers, number of transaction per day, and a number of employees in the branch. Based on the criteria the researcher selected Grade three and four branches under Kirkos District in this research. These branches was selected using purposive sampling according to their annual performance on size customers, high and wide transactions, high amount of resource mobilized, and their deposit size The researcher believes, the selected Branches have direct relation and attachment to the research statement of problem, objective , and research questions.

3.6 Methods of Data Analysis

SPSS is a Windows based program that can be used to perform data entry and analysis and to create tables and graphs. SPSS is capable of handling large amounts of data and can perform all of the analyses covered in the text and much more. SPSS is commonly used in the Social Sciences and in the business world .In these studies, SPSS software was used for the analysis of

Quantitative & Qualitative data (were converted to quantitative data after collection) and for the explanatory purpose.

The study used the result of SPSS as an input to Regression analysis for testing the relationship of the independent & dependent variables. Tables were used to present and make easily understandable findings in order to arrive at meaningful result(s) which reduced the data into a summary. The collected data from the respondents were incorporated in the discussion and interpretation part of the research .After having all these done, conclusions and recommendations was drawn based on the data analysis and interpretation.

Moreover, regression analysis was conducted to statistically test of the factors influence on operational efficiency. In which the researcher used SPSS for ease of data presentation and analysis. In addition, qualitative analysis techniques were used for interview data.

From the study model the equation is derived as follows:-

$$Y=a+b_1X_1+b_2X_2+b_3X_3+b_4X_4+b_5X_5 +E$$

In the above equation,

- Y = Operational Efficiency
- X₁ = Outsourcing Motives
- X₂ = Outsourcing Functions
- X₃ = Outsourcing Challenges
- X₄ = Outsourcing Qualities
- e = error

3.7 Validity and Reliability

3.7.1 Validity

Validity is concerned with the extent to which data collection methods accurately measure what they are intended to measure (Sahlemariam, 2015).). In order to achieve this objective, the researcher has taken different steps. In this thesis, face and content validity was established in order to ensure the appearance, relevance and representativeness of the survey. It carried out among different individuals included the tutor and examiner who are experts in this area. In order

to ensure validity of the interview questions and the questionnaire to be used have five point scores of Likert scale, the researcher attempted to meticulously and thoroughly look in to the empirical studies and other literatures related the subject matter in consultation with the advisor.

3.7.2 Reliability

Reliability was be also considered by doing a pre-testing of the questionnaire using Cronbach’s alpha which is a measure of internal consistency on a section of the study sample and modifications were incorporated for clarity, comprehensiveness, relevance and meaning. Subsequently, the improved version of the questionnaire and interviews were reprinted, duplicated and dispatched accordingly to the respondents. Chronbach’s alpha is mostly used and it is a coefficient of reliability used to measure the internal consistency of the scale in reliability test. This study selected this much recognized statistical test to assess the internal consistency of variables. According to Zikmund *et al.*,(2010), scale with coefficient alpha between 0.6 and 0.7 indicate fair reliability so for this study a Chronbach’s alpha score of 0.70 or higher is consider adequate to determine reliability.

Table 2 Reliability Test by Dimension

Dimensions	Cronbach's Alpha	N of Items
Outsourcing Motives	.865	7
Outsourcing Challenges	.831	9
Outsourcing Functions	.808	12
Outsourcing Qualities'	.802	9
Operation Efficiency	.801	8
Overall test	.839	34

Source: Study Result, 2021

The above table presents the result of the reliability scale test of this study. This table showed the reliability test based on each dimension and the overall reliability test. Each dimension scale had

a coefficient alpha more than 0.800 in this study. Based on this base the researcher conducted a test to measure the internal consistency and make modification based on the test and the result showed Cronbach's alpha for 34 items is 0.839 that is excellent and the items are internally consistent. It shows a strong reliability and considered adequate to determine reliability and the data collection tool is reliable.

This study used Chronbach's alpha to assess the internal consistency of variables in the research instrument. Chronbach's alpha is a coefficient of reliability used to measure the internal consistency of the scale. According to Yanit (2020), scale with coefficient alpha between 0.6 and 0.7 indicate fair reliability so for this study a Chronbach's alpha score of 0.70 or higher is consider adequate to determine reliability. Therefore, it was checked as the data collection tool was reliable.

3.8 Research Ethics Issues

The researcher kept the confidentiality of responses of participants and ensures that the finding of the study reflected the responses of the respondents. In general, utmost and unwavering attention were paid by the researcher to ensure the overall data collection, analysis and interpretation is carried out ethically in a manner that dovetails with the appropriate procedures. In doing so, the researcher ensured that the output of the study genuinely portrays the reality on the ground and meaningfully contribute its part to the betterment of future implementation of outsourced work force and with improved thoughts. The researcher would also like to acknowledge the studies and literatures done previously by different scholars and researchers and reflect on the ethical issues in every aspect of the activity doing this study.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 Introduction

Every research study should include demographic data to provide information about the sample. One of the first fundamental decisions made in social science research is who the study references. Using descriptive statistics, a study should include items such as gender, age, social economic status, ethnicity, employment status, income, religion, or some other category or identifier. For that reason, this part mainly dealt with the findings of the study and its analysis. To investigate the effect of the effectiveness of outsourcing practices on operational efficiency, the respondents' profile and associated data of the participants presented in this section.

4.2 Response Rate

The study was included 320 sampled respondents that were composed of the employees of CBE specially those who directly involved in various functions and services.

Table 3 Response rate

No.	Location of Sample	Sample Size	Returned	Response rate
1	Grade Three Branches	176	131	74%
2	Grade Four Branches	144	126	88%
Total		320	257	80%

Source: Study Result, 2021

In order to address the research questions, out of 320 employee respondents, 257 employees returned a completed and properly filled questionnaire which meant 80 percent coverage of total respondents from sampled employees in the surveyed organization. This result far from Yanit (2020) as she found 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. This may be the size of the sample size (133)

and it was done before Covid 19 outbreak. Accordingly, within this reference the response rate of this study was rated as good. As the first part of the questionnaire consisted of the demographic information of research participants, the following variables about the respondents were summarized and described in the subsequent table and diagram. These variables include age, sex, education level and working.

4.3 Demographic Characteristics of the Study Participants

Respondents were requested to indicate their age (in years), sex in terms of male and female, education level as diploma, degree, masters and above holders, working experience in their company (CBE) in years and working experience within this bank system in years. Accordingly, the following information was gathered and presented on the table below.

Table 4 Frequency of Participants Based on their Age

Respondent age – Count and Percentage						
		Respondents' age				Total
		18-30	31-40	41-50	51 and above	
Count and Percentage	Count	32	103	83	39	257
	%	12.5	40.1	32.3	15.2	100 %

Source: its own survey, 2021

The table above portrays that among the total number of respondents 32 (12.5 %) were aged between 18 – 30 and 103 (40.1 %) of the total majority respondents were between 31 to 40 years old. The respondents were aged between 41 up to 50 years that consisted to 32.3 % of the total participants of this study. In addition, the ages of the majority participants were ranged from 22 (minimum age) to 60 (maximum age) years with a mean age of 37 years. Therefore, it can be said that most of the participants were active and in proper working age.

Table 5 Distribution of Participants by Sex

Sex	N	Percent
Female	119	46.3 %
Male	138	53.7 %
Total	257	100%

Source: Study Result, 2021

The above table displays the frequency of participants based on their sex. Accordingly, the minority 46.3 % of the participants of this study were females and the others majority which is around 53.7 % were males. In addition, the collected data showed that participants' composition was good but not as expected. Yanit (2020) found that 89 (73.6%) of the respondents were males and the rest 32 (26.4%) were females. she concluded that the major respondent was dominated by male. It is anticipated that male employees are more in bank sector as female students have unequal chance to join business fields; It shows that there is less support of equal employment opportunity. As discussed in method part of the study, the researcher used various variables to know more about the participants based their sex, age and working experience. In order to gain sufficient data pertaining to this study, the targeted employees were requested their working experience working in CBE as a whole and in various banking functions section in specific. The following table presents a pertinent data about the respondents' educational background.

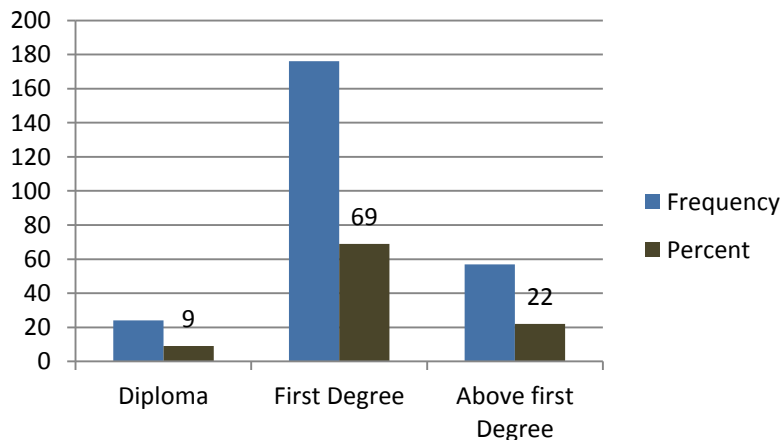


Figure 2 Frequency of Participants Based on Education

Source: Study Result, 2021

The majority of the respondent's educational status 69 % held first degree, 22 % completed first degree and 9 % completed diploma involved in the provision of information through questionnaires. From these data, about 69 % of the respondents had an academic qualification of First Degree. This implies that the bank sector has fairly educated employees who can easily understand the research objective and the current effects of outsourcing practices, activities of this bank and provide reliable information to meet the research objective. A year ago in 2015, Workalemahu (2015) found the same result as he revealed that the majority of the respondent's educational status (80.8 %) have first degree level of educational background whereas only 11% and 8.2% of the respondents had second degree and diploma levels respectively. This shows that the employees are properly educated and they can also understand and gave reasonable responses to the questionnaire distributed to them.

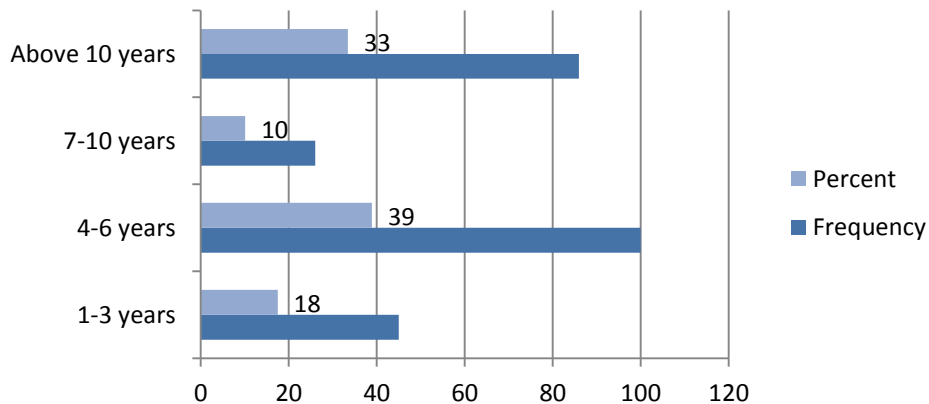


Figure 3 Frequency of Participants Based on Service Year

Source: Study Result, 2021

Accordingly, most of the participants, 33 % of them have worked more than 10 years, 10 % of them have worked 7 to 10 years in the CBE and; and majority category (39 %) is found in age between 4 to 6 years. The fewer respondents (18%) indicated they have worked in CBE below three years. In regard to this, the targeted employees have pertinent and capacitated employees to include in this study. It can be decided that data for this study was collected from least experienced to more experienced respondents and the majority have sufficient banking or working experience of the given outsource service. As a result, their responses can be trustworthy and consistent.

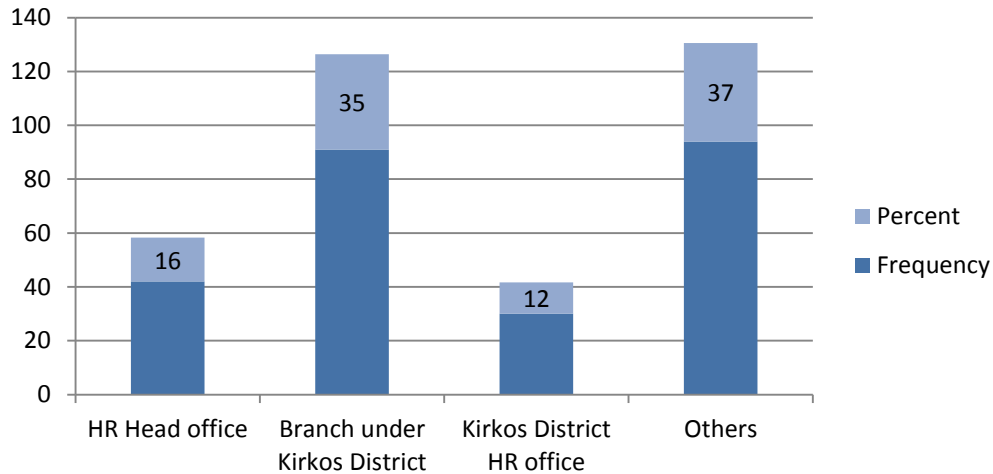


Figure 4 Frequency of Participants Work Location

Source: Study Result, 2021

The above figure displays most of the participants, 35 % of them have worked in branches under Kirkos district, and others worked in HR head office and Kirkos district HR offices which accounted 28 %. The majority of worked in other position of the bank. Mostly, from the data can conclude that, this study attempted to cover respondents from different work position. This shows that most of sampled 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 associated with the current effects of outsource activity of the organization performance.

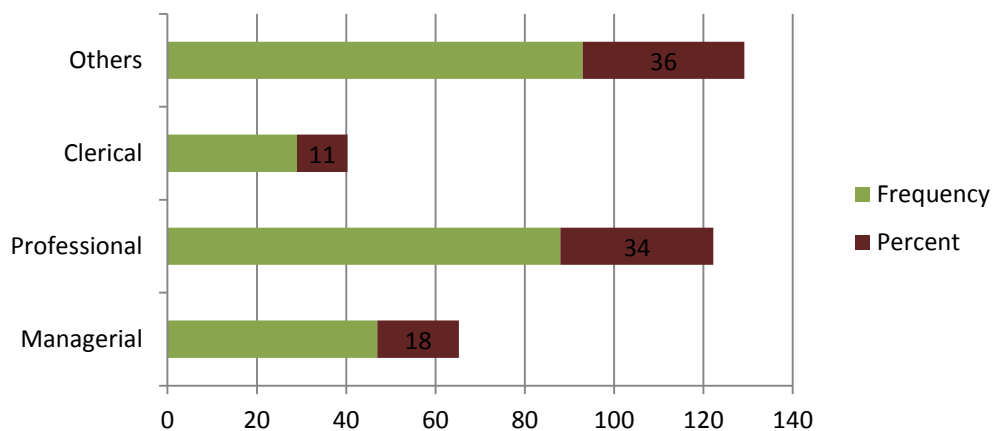


Figure 5 Frequency of Participants Work Position

Source: Study Result, 2021

As indicated in the above table, respondent field work position or assignment, from the total of 257 properly responded respondent, the majority respondent or 36 % were found under experts, specialization in various fields like logistics, support services, audit, accounting followed by core banking professionals 34 %, 18 % are managers and 11 % of them are clerks. In general, from the data one can conclude that, this study tried to cover respondents from different field professions. This meant that most of the sampled employees were in various occupation 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 organizations effectiveness.

Table 6 Current place * level of awareness about the concept of outsourcing

		level of awareness about the concept of outsourcing					<i>Total</i>
		Very low	Low	Medium	High	Very high	
Location current place of assignment	HR Head office	4	7	1	17	13	42
	Branches under Kirkos District	6	12	2	33	38	91
	Kirkos District HR office	1	1	4	7	17	30
	Others	2	0	2	52	38	94
Total		13	20	9	109	106	257

Source: Study Result, 2021

As it can be seen from the above table, the largest groups of (109) respondents have high knowledge about the concept of outsourcing and 106 of them preferred to the category of very high; it meant they know the concept of outsourcing in very high state. From this we can conclude that 84 % of the respondents have knowledge about the concept of outsourcing. This helps to get sufficient and satisfactory responses from them since they have knowledge about the study subject. However, about 5% of them have very low understanding the practices of this company but have a concept outsourcing. 38 of them preferred the category of very high and 33 individuals preferred to the category of high. This shows that branch staffs know more about the outsourcing practices of others. The data shows that branch staffs more know about the outsourcing issues. Workalemahu (2015) found the same result as the largest groups of respondents 61 (41.8%) have high knowledge about the concept of outsourcing and 56(38.4%) of them know the concept of outsourcing in medium state. In general, from the above survey results the responses obtained for the questionnaires are reasonably good.

4.4 Descriptive Analysis

In this part of the study, the study attempted to analysis primary data that was collected from 257 sampled study participants. Accordingly, this study used descriptive statistics that is the branch of statistics which gathers all techniques used to describe and summarize quantitative and qualitative data. This response analysis presents ratings of respondents' level of agreement for each dimension: Gathungu and Mwangi (2012) indicate more than 4.51 as excellent, 3.51- 4.50 good, 2.51 – 3.50 satisfactory and below 2.50 poor.

4.4.1 Outsourcing Motives

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments and also the technical reasons for outsourcing are quality enhancement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale.

Table 7 Outsourcing Motives

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Std. Deviation
	Count	%	Count	%	Count	%	Count	%	Count	%		
To reduce cost	25	9.7%	58	22.6%	10	3.9%	99	38.5%	65	25.3%	3.47	1.34
To improve service	27	10.5%	44	17.1%	19	7.4%	88	34.2%	79	30.7%	3.58	1.36
Strategic issues	22	8.6%	41	16.0%	22	8.6%	101	39.3%	71	27.6%	3.61	1.28
Core functions	21	8.2%	39	15.2%	21	8.2%	114	44.4%	62	24.1%	3.61	1.23
To improve flexibility	24	9.3%	33	12.8%	25	9.7%	115	44.7%	60	23.3%	3.60	1.24
To assist growth	22	8.6%	35	13.6%	22	8.6%	111	43.2%	67	26.1%	3.65	1.24
To access to new skills	25	9.7%	41	16.0%	19	7.4%	107	41.6%	65	25.3%	3.57	1.29
Grand											3.58	1.29

Source: Study Result, 2021

The above table presents the study participants opinion on outsourcing motives. Accordingly, this data shows the highest mean was found to be 3.65 on that they indicated that outsourcing assisted the bank growth. The lowest mean was 3.47 which were rated as moderate. This shows that the cost paid for outsourcing is more than what was expected from insourced activities. This may be related to the additional cost service providers incurred for their service cost and other expenses. This is opposed to the main driving force of outsourcing as access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. These business processes when outsourced lessen the investment required by the host institution to modernize them. Based on Bhattacharya, (2003), outsourcing cost drivers reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider.

Only 30.7 % of them strongly indicated that it improves service quality and customer satisfaction (3.58); Below 27 % of them strongly agreed that it helps to spent more time on strategic issues (3.61), focus on core functions (3.61) and to improve flexibility (3.60). The grand mean 3.58 was rated as good practices with less variability of data (SD=1.29).

According to Workalemahu (2015) other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle changing demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology. The most common outsourcing motives including customer value, team performance, talent management, and strategic focus all which are achieved through, proper planning, evaluation, implementation and control. Identifying 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 (Gathungu and Mwangi, 2012). Among the tactical drivers the most noticeable ones are lack of skilled workers and cost-reduction opportunities. Strategic reasons include refocus on innovation and core-competencies (Bhattacharya, 2003). Accordingly, this study assessed the practices of outsourcing in the surveyed organization and findings are compiled below:

4.4.2 Outsourcing Challenges

To survive economically nowadays, organizations need alter themselves and their market in an over more sensitive challenges to redefine the business world before it redefines them. Consequently, this study assessed the practices of outsourcing in the surveyed organization and findings are compiled below:

Table 8 Outsourcing Challenges

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Std. Deviation
	Count	%	Count	%	Count	%	Count	%	Count	%		
There are ethical problems of those of supplied staffs	26	10.1%	49	19.1%	20	7.8%	94	36.6%	68	26.5%	3.50	1.132
Poor handling of the Bank's resource.	27	10.5%	60	23.3%	16	6.2%	80	31.1%	74	28.8%	3.44	1.188
High maintenance costs	30	11.7%	60	23.3%	16	6.2%	93	36.2%	58	22.6%	3.35	1.610
Respecting professional employees of the bank	29	11.3%	58	22.6%	15	5.8%	88	34.2%	67	26.1%	3.41	1.178
In experienced and incompetent workers	34	13.2%	62	24.1%	16	6.2%	87	33.9%	58	22.6%	3.28	1.192
Misalignment	30	11.7%	58	22.6%	21	8.2%	108	42.0%	40	15.6%	3.27	1.103
Controlling outsourced staffs during working hours	37	14.4%	47	18.3%	20	7.8%	109	42.4%	44	17.1%	3.30	1.137
Inconsistency services	32	12.5%	43	16.7%	14	5.4%	113	44.0%	55	21.4%	3.45	1.128
Resources misused	34	13.2%	48	18.7%	10	3.9%	110	42.8%	55	21.4%	3.40	1.158
Grand											3.38	1.203

Source: Study Result, 2021

Regarding outsourcing challenges, the main problems associated with ethical issues. 26.5 % of the respondents strongly agreed that there are ethical problems of those of supplied staffs (3.50). Similarly, Tewodros (2017) found ethical problems particularly for massagers (3.03) and he also found that there are problems of confidentiality, material handling, controlling of staffs during working hour and ethical problem to some extent in both messengers and janitorial. On the other hand, the Bank has faced some serious problems due to outsourcing the driving service to an

external supplier. The majority of the interviewees responses decided that outsourcing driving staffs has ethical problem, handle materials poorly, unable to control them during working hours, responsible for theft of vehicles parts and the staffs are inexperienced & incompetent. The grand mean (3.38) was rated as satisfactory with less variability of data (SD=1.2).

In this study, the main problems included poorly handling of the Bank's resource (3.44), high maintenance costs are occurred (3.35), high problem of respecting professional employees of the bank (3.41) and inconsistency services are delivered by outsourced staffs and resource misused has been increased due to inexperienced staffs like office equipment, damages and thefts and others are also included. Fewer problems are listed as having lower mean from 3.27 to 3.30. It included as inexperienced and incompetent workers are provided, misalignment between the bank service requirement and capability of service provider and problem of controlling outsourced staffs during working hours.

Tewodros (2017) also found one of the most important challenges in outsourcing effort of the bank industry is unable to identify and access to suitable vendor, hasn't enough support from internal stakeholders & top management as expected in a way of seeking proper consideration and support that would enable the successful execution of the mandates entrusted to it. To that end outsourcing has appeared as a single most influential tool available to executives seeking this level of business change. In transformational outsourcing the service providers are not only observed as tools for becoming more effectual or better focused rather they are seen as prevailing forces for change.

4.4.3 Outsourcing Functions

Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer. Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. Accordingly, this study evaluated the practices of outsourcing in the surveyed organization and findings are compiled below:

Table 9 Outsourcing Functions

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Std. Deviation
	Count	%	Count	%	Count	%	Count	%	Count	%		
Allows to save time and cost	32	12.5%	40	15.6%	10	3.9%	109	42.4%	66	25.7%	3.53	1.052
Allows to focus on core business function	30	11.7%	57	22.2%	8	3.1%	89	34.6%	73	28.4%	3.46	1.103
Support to improves service quality	21	8.2%	36	14.0%	12	4.7%	106	41.2%	82	31.9%	3.75	1.007
Support to reduces complaints	23	8.9%	38	14.8%	14	5.4%	108	42.0%	74	28.8%	3.67	1.003
Support to reduce service delivery time	28	10.9%	41	16.0%	15	5.8%	101	39.3%	72	28.0%	3.58	1.136
Allow to focus on core business function	40	15.6%	56	21.8%	21	8.2%	97	37.7%	43	16.7%	3.18	1.364
Allow focusing on core business function	29	11.3%	43	16.7%	20	7.8%	114	44.4%	51	19.8%	3.45	1.289
Support to improves service quality	25	9.7%	41	16.0%	18	7.0%	116	45.1%	57	22.2%	3.54	1.265
Support to reduce complaints	25	9.7%	36	14.0%	19	7.4%	119	46.3%	58	22.6%	3.58	1.003
Outsourcing messengers allow to focus on core business function	23	8.9%	47	18.3%	21	8.2%	100	38.9%	66	25.7%	3.54	1.003
Support to reduce complaints	28	10.9%	45	17.5%	13	5.1%	99	38.5%	72	28.0%	3.55	1.135
Support to increase consistency	22	8.6%	45	17.5%	24	9.3%	105	40.9%	61	23.7%	3.54	1.003
Grand											3.53	1.113

Source: Study Result, 2021

The above table displays that below 31 % of the study respondents strongly agreed outsourcing of Security guards allows to save time and cost (3.53), allows to focus on core business function (3.46) and support to improves service quality (3.75). This shows that outsourcing security guards improves service quality. This study is differ from Tewodros (2017) that found majority of the respondents agreed that the outsourcing strategy of the bank helps to save time and cost and helps to focus on its core business functions of the bank with a mean score of 3.76 and, 3.64 were registered respectively. He established to the existing security service was incapable to reduce risk, improve service quality and increase flexibility and improve organization's

performance, with a mean score of 2.31, 2.60, 2.98 and 2.90 respectively. This shows that service providers have improved their service accordingly. From this someone can understand that this bank is acquiring both trained and experienced security staffs and unable to get better committed and loyal security staffs.

Regarding outsourcing janitors, this study found that 3.67 mean scored for support to reduce complaints, 3.58 to reduce service delivery time and 3.18 focus on core business function; each items scored below 28 % as strongly agree category. This shows that outsourcing janitors has been finest for support to reduce complaints. Tewodros (2017) found from the respondents and interview results there was no serious problem that the Bank encountered due to outsourcing the janitorial service of the Bank.

Concerning lobby person, this study found that they allow focusing on core business function (3.45), support to improve service quality (3.54) and support to reduce complaints (3.58). This shows that lobby persons outsourcing support to improve service quality and support to reduce complaints. Outsourcing messengers allow focusing on core business function (3.54), support to reduce complaints (3.55) and increase consistency (3.54). This shows that messengers allow focusing on core business function, support to reduce complaints and increase consistency in banking services. The grand mean (3.58) was rated as good with less variability of data (SD=1.11). Regarding these issues, Tewodros (2017) found that the challenges that are associated with outsourcing the messenger service of the Bank respondents are neutral; moreover, the surveyed manager also confirmed that there is no big challenge reported related to outsourcing messengers. Consequently, it can be decided that by outsourcing messengers majority of the benefits are achieved. Outsourcing messengers agree to focus on core function, reducing budget allocation and save time and cost.

4.4.4 Outsourcing Quality

Quality in outsourcing contract exists when the contract serves its intended function and meets the objective of both parties. 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. Therefore, this study evaluated outsourcing practices in the surveyed organization and findings are collected below:

Table 10 Outsourcing Qualities

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Std. Deviation
	Count	%	Count	%	Count	%	Count	%	Count	%		
The mechanisms for sharing service	33	12.8%	55	21.4%	14	5.4%	100	38.9%	55	21.4%	3.35	1.036
Enhanced its already existing services	31	12.1%	53	20.6%	14	5.4%	95	37.0%	64	24.9%	3.42	1.037
Obtain services that are more efficiently and timely	34	13.2%	33	12.8%	14	5.4%	107	41.6%	69	26.8%	3.56	1.036
Very satisfactory Services Obtained	29	11.3%	39	15.2%	9	3.5%	95	37.0%	85	33.1%	3.65	1.037
Provides visually appealing materials associated with the service	27	10.5%	44	17.1%	7	2.7%	105	40.9%	74	28.8%	3.60	1.034
Assuring service quality of outsourced activities	35	13.6%	25	9.7%	11	4.3%	121	47.1%	65	25.3%	3.61	1.033
Grand											3.53	1.03

Source: Study Result, 2021

This study found that this bank obtained from the service providers has been very satisfactory after outsourcing (3.65), Service Provider visually appealing materials associated with the service (3.60) and this bank is successful in assuring service quality of outsourced activities (3.61). This shows that service providers achieved acceptable outsourcing services with having visually interesting materials associated with the service and this bank is fruitful in assuring service quality of outsourced activities. The grand mean (3.53) was rated as good with less variability of data (SD=1.03). Similarly, Yanit (2020) found that 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. She indicated that 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.

Outsourcing supported this bank the mechanisms for sharing service was rated as low (3.35) followed by this bank has enhanced its already existing services after outsourcing (3.42) and outsourcing enables this bank to obtain services that are more efficiently and timely (3.56). This shows that outsourcing moderately supported this bank the mechanisms for sharing service and this bank has insufficiently enhanced its already existing services after outsourcing. Yanit (2020) found that 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.

4.4.5 Operational Efficiency

Outsourcing lets 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. Thus, this study evaluated outsourcing practices in the surveyed organization and findings are composed of below:

Table 11 Operational Efficiency

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Std. Deviation
	Count	%	Count	%	Count	%	Count	N %	Count	%		
Customers service satisfaction	29	11.3%	39	15.2 %	21	8.2%	103	40.1%	65	25.3%	3.53	1.032
Able to reduce costs	26	10.1%	48	18.7 %	19	7.4%	107	41.6%	57	22.2%	3.47	1.030
Committed	28	10.9%	34	13.2 %	34	13.2 %	117	45.5%	44	17.1%	3.45	1.002
Feel confident	22	8.6%	36	14.0 %	28	10.9 %	111	43.2%	60	23.3%	3.59	1.228
Outcome	23	8.9%	44	17.1 %	27	10.5 %	109	42.4%	54	21.0%	3.49	1.002
Increased competitiveness	24	9.3%	39	15.2 %	25	9.7%	118	45.9%	51	19.8%	3.52	1.002
loyal outsourced staffs	31	12.1%	53	20.6 %	21	8.2%	86	33.5%	66	25.7%	3.40	1.038
Noncore business functions	30	11.7%	54	21.0 %	19	7.4%	105	40.9%	49	19.1%	3.35	1.032
Well-being of the customer	33	12.8%	52	20.2 %	16	6.2%	101	39.3%	55	21.4%	3.36	1.036
Grand											3.46	1.04

Source: Study Result, 2021

This study found that below 25 % of the respondents strongly agreed that service satisfaction increased after outsourcing non-core business functions of the bank (3.53), existing outsourced practice helped the Bank and its customer to feel confident about its service quality (3.59) and outsourced practice Increased competitiveness of the bank in the banking industry (3.52). This shows that There is acceptable service satisfaction increased after outsourcing non-core business functions of the bank with existing outsourced practice is suitable and helped the Bank and its customer to feel confident about its service quality (3.59) an outsourced practice increased competitiveness of the company in the banking industry.

This study, however, found that there is moderately acceptable as this bank has able to reduce its operating costs related to noncore business function (3.47), outsourced staffs are less committed to carry out their responsibilities (3.45), outsourced practice has had a negative outcome in the bank daily operational activities (3.49). The grand mean (3.48) was rated as satisfactory with less variability of data (SD=1.049). Similarly, Tewodros (2017) found that there is a problem in bringing customer's satisfaction, improving quality service, reducing risk, increasing efficiency and effectiveness of the bank. That is why Workalemahu (2015) stated that outsourcing increases the efficiency of the company. The non-core business functions will be achieved efficiently by outsourcing partner, whereas the core functions of the company can be resourcefully carried out in-house. Thus the managers of the company can attain overall efficiency and see an increase in their profits. The core reasons for outsourcing include enhanced service, staffing constraints, and budget constraints, to access technology. Outsourcing, when properly planned and controlled, is expected to produce several benefits, such as reduced costs, improved service quality, and increased efficiency and innovation.

4.5 Correlation Analysis

This study used Pearson's Product Moment Correlation Coefficient (r) that is employed to measure the degree of association between the independent variables outsourcing of and the dependent variable (operation efficiency). It takes a value between -1 and 1 . A value of r near to 1 indicates strong positive association whereas a value of r near to -1 indicates a strong negative linear association, While $r = \pm 1$ this indicates that the two variables are perfectly correlated, i.e., all the points are on a straight line, (Gathungu and Mwangi, 2012). When the correlation is 1 or $-$

1, a perfectly linear positive or negative relationship exists; when the correlation is 0, there is no relationship between the two sets of data. The standard correlation coefficient is (Pearson's r) which applies primarily to variables distributed more or less along interval or ratio scales of measurement. The general guidelines correlations, .01 to .30 are considered small, correlations of .31 to .70 are considered moderate, correlations of .71 to .90 are considered large, and correlations of .91 to 1.00 are considered very large.

Table 12 Pearson Correlation Test Result (N=257)

	Outsourcing Motives	Outsourcing Challenges	Outsourcing Functions	Outsourcing Qualities	Operation Efficiency
Outsourcing Motives	1	.711**	.427**	.374**	.479**
Outsourcing Challenges	.711**	1	.436**	.286**	.436**
Outsourcing Functions	.427**	.436**	1	.534**	.506**
Outsourcing Qualities	.374**	.286**	.534**	1	.632**
Operation Efficiency	.479**	.436**	.506**	.632**	1
	.000	.000	.000	.000	.000
	.000	.000	.000	.000	.000
	.000	.000	.000	.000	.000
	.000	.000	.000	.000	.000

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

Source: Study Result, 2021

All basic constructs were included into the correlation analysis depending on the above assumption. Thus, the table above shows that there is positive and significant relationship between outsourcing motives and operation efficiency ($r = .479$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing motives and operation efficiency. Yanot (2020) found that there is positive and significant relationship between organization performance and focus - driven outsourcing ($r = .278$, $P < 0.01$), but $p > .05$ there is no significant correlation between cost- driven outsourcing and organization performance.

There is positive and significant relationship between outsourcing challenges and operation efficiency ($r = .436$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing challenges and operation efficiency. This study found a less relationship between

challenges and operational efficiency. It shows that as more challenges are increased operational efficacy will be increased as a less amount.

A moderate positive and significant relationship between outsourcing functions and operation efficiency exists ($r = .506$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing functions and operation efficiency. Tewodros (2017) found that all relationships between the dependent and independent variables are positively and weakly correlated. From the analysis, it can be observed that organization's performance has weak correlation with each of the independent variables ranging from .145 correlated between outsourcing cleaning service and organizational performance to .276 between outsourcing security service and organizational performance significant at $p < 0.01$ level.

A moderate positive and significant relationship between outsourcing quality and operation efficiency exists ($r = .632$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing quality and operation efficiency. This study found higher relationship between the two factors but Yanit (2020) found that existed relationship and between organization performance and quality- driven outsourcing ($r = .375$, $p < 0.01$).

4.6 Regression Analysis Results

This study used multiple linear regression analysis to examine the impact of the predictor variables on the dependent variable. Regression is a measure of association between two quantitative variables. This form of statistical test is only possible with interval or ratio data. It allows us to make statements about how well one or more independent variables will predict the value of a dependent variable.

4.6.1 Assumptions and Diagnostic Test

4.6.1.1 Test for average value of the error term

Test for average value of the error term is zero ($E(u_t) = 0$); the first assumption required is that the average value of the errors is zero. In fact, if a constant term is included in the regression equation, this assumption will never be violated. Therefore, since the constant term (i.e. α) was

included in the regression equation, the average value of the error term in this study is expected to be zero.

4.6.1.2 Test for Multicollinearity

Multicollinearity refers to a situation in which there is exact (or nearly exact) linear relation among two or more of the input variables (Uma, 2003).

Table 13 Multicollinearity Test

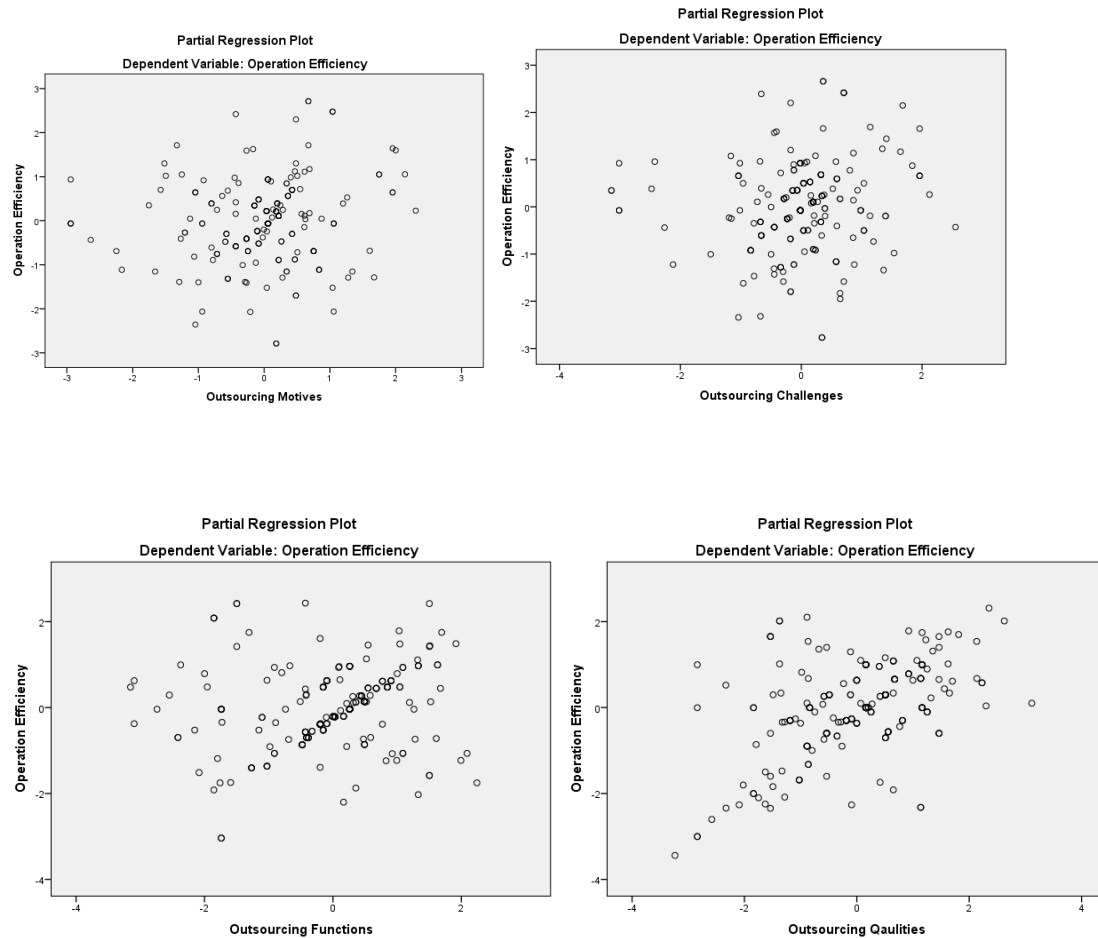
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Outsourcing Motives	.460	2.174
	Outsourcing Challenges	.471	2.125
	Outsourcing Functions	.624	1.602
	Outsourcing Qualities	.686	1.458

Source: Study Result, 2021

The VIF (Variance Inflation Factor) for each term in the model measures the combined effect of dependence among the regressors on the variance of that term. One or more large VIF indicate multicollinearity. Practical experience indicates that if any of the VIF results exceed 5 or 10, it is an indication that the associated regression coefficients are poorly estimated because of multicollinearity (Uma, 2003). According to the result obtained from the analysis, there is no strong multi collinearity and degree of association between variables. The above table shows that the VIF value of four factors was found less than 5 or 10. It can be concluded that no collinearity was observed on this data.

4.6.1.3 Test of Linearity

According to Osborn and Waters (2002) liner relationship is a liner relation of the standardized residuals and standardized predicted values. The Scatter plots show that the relationship between dependent, mediating and independent variables is linear .



Source: Study Result, 2021

Figure 6 Scatter Plot

A scatter plot is a graphical technique used to illustrate the association of two numerical variables. Data are represented visually by making a graph with two axes: horizontal (x axis) and vertical (y axis). Each point in the plot represents one observation. When all observations are plotted, the diagram conveys information about the direction and magnitude of the association of the two variables(x and y). Since the dots are dispersed, it shows the data meet the assumptions of the errors being normally distributed and the variances of the residuals being constant.

4.6.1.4 Test for Autocorrelation

Assumption that is made of the multiple linear regressions disturbance terms is that the covariance between the error terms over time (or cross-sectional, for that type of data) is zero.

Table 14 Autocorrelation Test: Durbin Watson

Model Summary ^b	
Model	Durbin-Watson
1	1.371

a. Predictors: (Constant), Outsourcing Qualities, Outsourcing Challenges, Outsourcing Functions , Outsourcing Motives

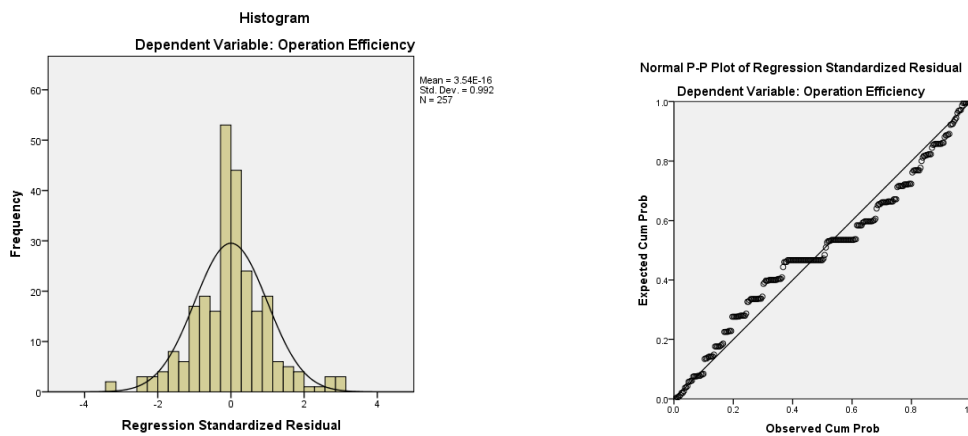
b. Dependent Variable: Operation Efficiency

Source: Study Result, 2021

To test the presence of autocorrelation, the popular Durbin-Watson Test was employed in this study. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are “auto correlated” or that they are “serially correlated”. A test of this assumption is therefore required.

4.6.1.5 Test of Normality

The normality assumption can be tested by looking at the Normal Probability Plot (P-P) for the model of Regression Standardized Residual and the Scatter plot with histogram shown as part of the analysis.



Source: Study Result, 2021

Figure 7 Histogram and P-P plot of regression

The histogram in the above figure with the normal curve looks normal and the black line in the histogram represents the bell-shaped normal curve of the sample data under the study and the P-

P plots in figure above also the dots are realistically nearer to the normal line. Therefore, the closer or nearer the dots to the diagonal line, the closer to normal the residuals are distributed. The combination of both inspections support that the residuals are normally distributed. Consequently, it is possible to conclude that the residuals are normally distributed based on the above both histogram and normal P-P plot of regression.

In social science study, frequent business statistics authors indicate that Kurtosis with higher kurtosis means more of the variance is due to infrequent extreme deviations, as opposed to frequent modestly-sized deviations. Similarly, Skewness with its type of distribution like positive skew as the right tail is longer; the mass of the distribution is concentrated on the left of the figure. The distribution is said to be right-skewed. Negative skew as the left tail is longer; the mass of the distribution is concentrated on the right of the figure. The distribution is said to be left-skewed.

Table 15 The Normality Test

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Outsourcing Motives	257	-.962	.352	.076	.303
Outsourcing Challenges	257	-.947	.352	.031	.303
Outsourcing Functions	257	-.620	.352	-.734	.303
Outsourcing Qualities'	257	-.655	.352	-.758	.303
Operation Efficiency	257	-.808	.352	-.342	.303
Valid N (listwise)	257				

Source: Study Result, 2021

As the above table presents, the descriptive statistic, Kurtosis and Skewness statics calculation demonstrates that the distribution is normal because Kurtosis and Skewness are in between -2 and +2, thus data is normally distributed and had a reasonable variance to use subsequent analysis (John, 2007). The detailed descriptive statistics about each variable are also discussed in the next paragraphs.

4.6.2 Regression Test Result and Interpretation

After testing all the relevant assumptions of classical linear regression model for the data used, the researcher deployed multiple linear regression to examine the effect of outsourcing practices over the dependent variable of operational efficiency.

Table 16 Regression Model Summary Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.703 ^a	.494	.485	.866

a. Predictors: (Constant), Outsourcing Qualities, Outsourcing Challenges, Outsourcing Functions , Outsourcing Motives

Source: Study Result, 2021

This model summary table shows that the value of adjusted R-squared which is known as the coefficient of determination was indicates .494 that the independent or predictor variable (motives, functions, challenge and quality) jointly explained 49.4 % of variance in operational efficiency of the organization. That the remaining 50.6 % of the variation in the operational efficiency of the bank is satisfactory could be accounted for by other factors not considered in this study. Since the study is concentrated on non-core business function which is outsourced only but operational efficiency will be highly affected by the core business function and noncore business function which is not outsourced. Alongside, this study indicates that further research might be needed.

Table 17 Regression ANOVA Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	184.316	4	46.079	61.388	.000 ^b
Residual	189.155	252	.751		
Total	373.471	256			

a. Dependent Variable: Operation Efficiency

b. Predictors: (Constant), Outsourcing Qualities, Outsourcing Challenges, Outsourcing Functions , Outsourcing Motives

Source: Study Result, 2021

Analysis of variance (ANOVA) was done to establish the fitness of the model applied in this study. The ANOVA table shows that that the independent variables (motives, functions, challenge and quality) jointly are significant predictors of operational efficiency ($F(4, 2526) = 61.388, P < 0.05$). This means that the model applied here was appropriate and the relationship of the variables shown could not have occurred by chance.

Table 18 Regression Test Result

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.662	.211		3.135	.002
	Outsourcing Motives	.152	.067	.150	2.263	.024
	Outsourcing Challenges	.139	.066	.138	2.113	.036
	Outsourcing Functions	.128	.055	.133	2.340	.020
	Outsourcing Qaulities	.433	.050	.466	8.608	.000

a. Dependent Variable: Operation Efficiency

Source: Study Result, 2021

According to the above table, outsourcing motives has a significant effect on operational efficiency ($\beta = .152, t = 2.263, p < 0.024$). This supports the hypothesis. However, this is opposed to Yanit (2020) results within significant value $p > .05$ cost driven and focus driven outsourcing do not significantly predict performance; these reject hypotheses. Some common reasons for outsourcing include improving company focus, gaining access to world-class capabilities and freeing internal resources - cash and personnel - for other purposes, for instance research and development. Other common reasons for outsourcing are requiring specific expertise for functions that are either time-consuming or are currently out of control and sharing risks and costs with a partner.

According to the above table, outsourcing challenges have a significant effect on operational efficiency ($\beta = .139, t = 2.113, p < 0.036$). This supports the hypothesis. This shows when the outsourcing occurred operational efficiency will be happened but other challenges will created

from on-outsourced business processes as well as outsourced functions, service providers and others. The coefficient result .139 is weak as compared to others, this may be related to the fact that the managers of the bank are of the understanding that the outsourced staff job security is not certain in the bank and also they are not permitted to perform certain sensitive roles in the bank. These challenges indicated by the managers are consistent with that of the staff. The challenges identified by the managers as a challenge the bank faces as a result of outsourcing practices by the bank. The managers are of the view that the bank obtains grievances from the outsourced staff through the employer agency.

According to the above table, outsourcing functions have a significant effect on operational efficiency ($\beta = .128$, $t = 2.340$, $p < 0.0001$). This supports the hypothesis and this assures that the foremost common reasons for outsourcing are requiring specific expertise for functions that are either time-consuming or are currently out of control and sharing risks and costs with a partner. To initiate the decision to outsource specific operations or functions must be based on sound decision not just a cost factor though cost is an integral part of an outsourcing decision. There is nothing immoral with this concept but when companies choose this option, it must be for the right reasons.

According to the above table, outsourcing quality have a significant effect on operational efficiency ($\beta = .433$, $t = 8.608$, $p < 0.020$). This supports the hypothesis. Similarly, Yanit (2020) found that quality driven outsourcing has a significant impact on performance ($\beta = .263$, $t = 3.557$, $p < 0.05$). This supports the given hypothesis. It is an indication that an increasing the outsourcing of nonstrategic services can improve both the quality and the service. The outsourcing of services of low strategic value enables the company to reduce costs and improve its competitive position. Businesses that make alliances by trusting external sources have better results, reduce risks and improve the quality ratio while also increasing their capacity of innovation and flexibility.

Moreover, regression analysis was conducted to statistically test of the factors influence on operational efficiency. In which the researcher used SPSS for ease of data presentation and analysis. In addition, qualitative analysis techniques were used for interview data.

From the study model the equation is derived as follows:-

$$Y = .662 + .152X_1 + .128X_2 + .139X_3 + .433X_4 + E$$

In the above equation,

- Y = Operational Efficiency
- X₁ = Outsourcing Motives
- X₂ = Outsourcing Functions
- X₃ = Outsourcing Challenges
- X₄ = Outsourcing Qualities
- e = error

4.7 Hypothesis

4.7.1 Outsourcing Motives

H₁ – Outsourcing motive have a positive and significant effect on the efficiency of operational activities towards banking sector.

Using correlation analysis, this study attempted to test relationship between outsourcing motives and operation efficiency. Thus, the study found that there is positive and significant relationship between outsourcing motives and operation efficiency ($r = .479$, $P < .01$); since p less than 0.05 there is significant correlation between outsourcing motives and operation efficiency. In addition, multiple regression analysis has been used and the results showed that outsourcing motives has a significant effect on operational efficiency ($\beta = .152$, $t = 2.263$, $p < 0.024$). This supports the hypothesis. However, this opposed to Yanit (2020) results within significant value $p > .05$ cost driven and focus driven outsourcing do not significantly predict performance; these rejects hypotheses. But Potkany (2011) indicated will help the organization to maintain its competitive advantage in the market that it operates.

4.7.2 Outsourcing Challenges

H₂ – Outsourcing challenges have a positive and significant effect on the efficiency of operational activities towards banking sector.

Using correlation analysis, this study found there is positive and significant relationship between outsourcing challenges and operation efficiency ($r = .436$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing challenges and operation efficiency. In addition, this study used multiple regression to test its effect. Thus, the study found that outsourcing challenges have a significant effect on operational efficiency ($\beta = .139$, $t = 2.113$, $p < 0.036$). This supports the hypothesis. There are risks related with outsourcing depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive (Meresa, (2007). Jerzy & Przemysław (2018) stated that high prices being executed on suppliers due to increasing trends in outsourcing, the demand for suppliers and Manzi (2005) stated that there may be at a risk of being connected to the company's competitors.

4.7.3 Outsourcing Functions

H₃ – Outsourcing functions have a positive and significant effect on the efficiency of operational activities towards banking sector.

Using correlation analysis, this study attempted to test relationship between outsourcing functions and operation efficiency. Thus, it found that there is a moderate positive and significant relationship between outsourcing functions and operation efficiency ($r = .506$, $P < 0.01$); since p less than 0.05 there is significant correlation between outsourcing functions and operation efficiency. Moreover, this study applied multiple regression to test its effects. Thus, this study found that outsourcing functions have a significant effect on operational efficiency ($\beta = .128$, $t = 2.340$, $p < 0.0001$). Tewodros (2017) found that all relationships between the dependent and independent variables are positively and weakly correlated. Outsourcing means that organization give away or outsource the whole of the activities at the area of the chosen parts of the organization (Ali, et al., 2011).

4.7.4 Outsourcing Quality

H₄ – Outsourcing quality has a positive and significant effect on the efficiency of operational activities towards banking sector.

Using correlation analysis, this study attempted to test relationship between outsourcing quality and operation efficiency. This study found that a moderate positive and significant relationship between outsourcing quality and operation efficiency exists ($r = .632$, $P < .01$); since p less than 0.05 there is significant correlation between outsourcing quality and operation efficiency. Using multiple regression to test its effect, this study found that outsourcing quality have a significant effect on operational efficiency ($\beta = .433$, $t = 8.608$, $p < 0.020$). This study found higher relationship between the two factors but Yanit (2020) found that existed relationship and between organization performance and quality- driven outsourcing and also found that quality driven outsourcing has a significant impact on performance ($\beta = .263$, $t = 3.557$, $p < 0.05$). This supports the given hypothesis. Quality of service can be a major factor when customers decide which business to use to solve their needs (Jerzy & Przemysław, 2018).

Table 19 Summary of Hypothesis Testing

Hypothesis	Sig.	Status
Outsourcing motive has a positive and significant effect on the efficiency of operational activities towards banking sector	.024	Supported
Outsourcing challenges have a positive and significant effect on the efficiency of operational activities towards banking sector	.036	Supported
Outsourcing functions has a positive and significant effect on the efficiency of operational activities towards banking sector	.020	Supported
Outsourcing quality has a positive and significant effect on the efficiency of operational activities towards banking sector.	.000	Supported

Source: Study Result, 2021

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter is divided in to three sections. The first section contains summary of the major findings of the study, the next section drawing conclusions from the findings and the last section deals making recommendations to the established finding and conclusions that could be useful and viable for the organization and finally and future implication for further research about these area was located.

5.1. Summary of Major Findings

The main purpose of the study was to investigate the effect of outsourcing practices on operational efficiency towards banking sector. The study attended 80 % of responses rate. Twenty percent (20%) of the questionnaires were unreturned. Stratified sampling was applied based on the surveyed bank branches. Descriptive statistics like frequency and percentage were employed to analyze background information of respondent and inferential analysis was conducted by regression and correlation aliases. Thus, this study found that

- This bank has been used outsourcing to focus on core functions (3.61), to spent more time on strategic issues (3.61), and to assist growth (3.65). Services this bank obtained from the service providers has been very satisfactory after outsourcing (3.65). Outsourcing janitors support to reduces complaints (3.67) and outsourcing Security guards support to improves service quality (3.75)
- In addition, outsourcing janitors inadequately allow to focus on core business function (3.18), low misalignment between the bank service requirement and capability of service provider (3.27), experienced and competent workers are provided (3.28), and there are problem of controlling outsourced staffs during working hours (3.30)
- Using correlation analysis, this study found that there is positive and significant relationship between outsourcing motives and operation efficiency ($r = .479$, $P < 01$) and by multiple regression analysis, this study found that outsourcing motives has a significant effect on operational efficiency ($\beta = .152$, $t = 2.263$, $p < 0.024$).
- Using correlation analysis, this study found there is positive and significant relationship between outsourcing challenges and operation efficiency ($r = .436$, $P < 01$) and

outsourcing challenges have a significant effect on operational efficiency ($\beta = .139$, $t = 2.113$, $p < 0.036$) by multiple regression.

- By correlation analysis, this study revealed that there is a moderate positive and significant relationship between outsourcing functions and operation efficiency ($r = .506$, $P < 01$) and study found that outsourcing functions have a significant effect on operational efficiency ($\beta = .128$, $t = 2.340$, $p < 0.0001$) by multiple regression.
- Using correlation analysis, this study found that a moderate positive and significant relationship between outsourcing quality and operation efficiency exists ($r = .632$, $P < 01$) and this study revealed found that outsourcing quality have a significant effect on operational efficiency ($\beta = .433$, $t = 8.608$, $p < 0.020$) through multiple regression.

5.2. Conclusions

Depending on the major findings of the study, the following conclusions were reached. As the findings of the study, the best outsourcing practices included focus on core functions, spent more time on strategic issues, and assist growth. Services this bank obtained from the service providers has been very satisfactory after outsourcing. Outsourcing janitors support to reduce complaints and outsourcing security guards support to improve service quality. In addition, it needs more efforts to modernize outsourcing janitors that has not been inadequately allowed to focus on core business function. There is also an alignment between the bank service requirement and capability of service provider, experienced and competent workers are provided and there are problem of controlling outsourced staffs during working hours. With Business Process Outsourcing, the target is essentially longer-term and it focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns. Thus, outsourcing motives has a significant effect on operational efficiency. No influential tool is without challenges, and the same is factual for outsourcing. With this regard, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing challenges. Accordingly, outsourcing challenges have a significant effect on operational efficiency. Outsourcing has its own advantage or benefit and drawback or cost. The balance between the two is depends on the ability of the service receiver to analyze the function and the commitment of the service provider to provide the service based on prior agreement. In addition

to these there are also another cost and benefit of outsourcing beyond the activities of the two parties which is related to the nature of outsourcing itself. In relation to this let us see some points sported by different writers. Thus, outsourcing functions have a significant effect on operational efficiency. In general, 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. It confirms outsourcing quality have a significant effect on operational efficiency.

5.3. Recommendations

- Banks may enhance their long-term and trusted relationships with service providers, this should be applied carefully in order to achieve outsourcing advantages and avoid disadvantages. This may help to reduce associated outsourcing problems and gap in outsourcing practices of banks and generally all other organizations in Ethiopia. They may enhance their knowledge about outsourcing and outsourcing related researchers should be conducted broadly. Therefore, it can be developed further in order to provide with new and deeper results.
- This bank may revise its decision on outsourcing janitors that inadequately allow focusing on core business function. This bank should maximize giving feedbacks to the service provider, as it benefits the organizations and the service providers as well as employees. Employees who knew where they stand strive to improve their performance. As a result, if their performance is improved, organization's efficiency will be improved.
- The study suggests that all commercial banks which are included in the study ought to focus on improving operational efficiency in order to increase their performance and competitive advantage in the banking industry.
- Service Providers may aware the benefits of outsourcing or all concerned parties may gain the support of internal stakeholders, facilitate the identification of activities that can be best performed by the service providers, setting of well formulated contract and service level agreement, identification of competent service providers and also help for the creation of awareness regarding the objectives of outsourcing strategy.
- The government may revise the labour law to get job security. Review service providers level of profit, training requirements, and creating suitable working environment and others.

- The bank may monitor the service provider performance. This makes the monitoring of contractors is characteristically more costly than monitoring in-house service provider. The ultimate goal of service provider is to make profit while the client seeks to obtain the best value for money from the contract. The interest of these two parties clearly deviates. The service provider stands to benefit from shrinking resources which results an incentive to reduce efforts, providing such action is not detected by the client or outsourcer.
- This bank Managers may apply 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

5.4. Implications

Outsourcing is a comparatively new management technique. Its practical benefits can be seen from its growing use. Firms no longer carry out all the entire operations. Organizations want to focus on their core activities. Consequently, they contract out support functions as well as low level managerial jobs or activities. Outsourcing advantages are not automatic. Outsourcing arrangements need proper attention, considerable time and care from management. This study shows that the decision to outsource, significantly improves operational performance. Thus, bankers and service providers including service organization should know that outsourcing practices are not similar for all companies, as this particular activity was considered in financial industry. While character of work in which company operates and aims that it sets changes, outsourcing can also change and bring benefits or risks to client company. This is also a lesson that outsourcing practices cannot always ensure such common advantage as cost reduction as it was observed in banks in Ethiopia.

5.5. Recommendations for Future Studies

In future research, some other performance dimensions such as outsourcing leadership, outsourcing effectiveness and outsourcing actors performance can be considered to investigate that what is the effect of outsourcing on those dimensions and what is the relation between outsourcing and those performance dimensions.

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Annex

Appendix I

Addis Ababa University
School of Commerce
(Managers' Survey)

Dear respondents,

My name is Addisu Debebe. I am a Post graduate student of Masters of Human Resource Management of Addis Ababa 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 “Outsourcing Practices and their effect on operational efficiency: evidences from Commercial Bank of Ethiopia”.

I request you to spend a few minutes and answer this questionnaire. The main purpose of this questionnaire is to gather data for Master's Thesis for partial fulfillment of master's degree in Human Resource Management, which is entitled as the assessment of outsourcing practices and their effect on the efficiency of daily key operational activities in case of Commercial Bank of Ethiopia.

You are expected to provide accurate and relevant information with respect to the overall outsourcing practice of the Bank. You are not required to write your name thus, the researcher is very much grateful for the sacrifice you pay to this end and the information gathered will be highly confidential and will be used only for the purpose of this research.

In all cases where answer options are available please tick (√) in the appropriate box. For questions that demands your opinion, please try to honestly describe as per the questions on the space provided. The respondents must be one and above year experiences. Your cooperation will be highly appreciated.

Best Regards,
Addisu Debebe,
0911 88 5010

General Directions: please put a circle on the appropriate letter to indicate your choice and write your short and precise answers for those followed by the blank space.

Part I: Respondent Demography

1. Gender: A) Male B) Female

2. Age: A) 18-30 B) 31-40 C) 41-50 D) 51 and above

3. Educational background:

 A) < Diploma B) Diploma C) First Degree D) > first degree

4. How many years have you stayed in CBE?

 A. 1-3 years B. 4-6 years C. 7-10 years D. Above 10 years

5. Location of your current place of assignment?

 A) HR Head office B) Branch under Kirkos District C) Kirkos District HR office

6. What is your current work category or position in the Bank?

 A) Managerial B) Professional C) Clerical D) other,

 Please specify

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

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

Part II - Effect of Outsourcing Practices on Operational Efficiency

Questions designed to collect information about the effect of outsourcing on the operational efficiency of the bank daily key operational activities in case of commercial bank of Ethiopia. Indicate your level of agreement how important you feel each item in making decision of outsourcing the business functions using the following rating scale: 5 =Strongly Agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

Direction - Put “√” Mark in the appropriate column to signify the importance level of each item. 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)

Code	Items	Measurement				
		1	2	3	4	5
Outsourcing Motives (Reasons) based on justification for making the outsourcing Decision						
OM1	To reduce cost					
OM2	To improve service quality and customer satisfaction					
OM3	To spent more time on strategic issues					
OM4	To focus on core functions					
OM5	To improve flexibility					
OM6	To assist growth					
OM7	To access to new skills					
Challenges Or Problems Arise Due To Outsourcing Of Non-Core Business						
CO1	There are ethical problems of those of supplied staffs					
CO2	Poor handling of the Bank’s resource.					
CO3	There is high maintenance costs are occurred.					
CO4	There are high problem of respecting professional employees of the bank					
CO5	In experienced and incompetent workers are Provided					
CO6	High misalignment between the bank service requirement and capability of service provider					
CO7	There are problem of controlling outsourced staffs during working hours					
CO8	Inconsistency services are delivered by outsourced staffs					
CO9	Resources misused have been increased due to inexperienced staffs like office equipment, damages and thefts and etc.					
Outsourcing Functions						
	Evaluate outsources of Security Service delivered by outsourcing service vendor.					
OS1	Outsourcing of Security guards allows to save time and cost					

OS2	Outsourcing Security guards allows to focus on core business function					
OS3	Outsourcing Security guards support to improves service quality					
	Evaluate outsources of cleaning Service delivered outsourcing service vendor.					
OS4	Outsourcing janitors support to reduces complaints					
OS5	Outsourcing janitors support to reduce service delivery time					
OS6	Outsourcing janitors allow to focus on core business function					
	Evaluate outsources of lobby person					
OS7	Outsourcing lobby person allow focusing on core business function					
OS8	Outsourcing lobby person support to improves service quality					
OS9	Outsourcing lobby person support to reduce complaints					
	Evaluate outsources of messenger/courier service					
OS10	Outsourcing messengers allow to focus on core business function					
OS11	Outsourcing messengers support to reduce complaints					
OS12	Outsourcing messengers support to increase consistency					
Outsourcing Quality						
OQ1	Outsourcing supported this bank the mechanisms for sharing service					
OQ2	The bank has enhanced its already existing services after outsourcing					
OQ3	Outsourcing enables this bank to obtain services that are more efficiently and timely					
OQ4	Services this bank obtained from the service providers has been very satisfactory after outsourcing					
OQ5	Outsource Service Provider visually provides appealing materials associated with the service					
OQ6	This bank is successful in assuring service quality of outsourced activities					
Operational Efficiency evaluate how outsourcing noncore business functions affect daily operational performance in terms of (customer satisfaction, service quality, effectiveness & efficiency)						
OE1	Customers service satisfaction increased after outsourcing non-core business functions of the bank					
OE2	The bank has able to reduce its operating costs related to noncore business function					

OE3	Outsourced staffs are less committed to carry out their responsibilities					
OE4	The existing outsourced practice helped the Bank and its customer to feel confident about its service quality					
OE5	The outsourced practice has had a negative outcome in the bank daily operational activities					
OE6	The outsourced practice Increased competitiveness of the company in the banking industry					
OE7	Better committed and loyal outsourced staffs are provided					
OE8	The bank operational performance increased after outsourcing noncore business functions					
OE9	After outsourcing, well-being of the customer ,staffs and property of the CBE better secured					

1. Please indicate outsourcing challenges in bank sector in light of Commercial bank of Ethiopia

2. Please indicate outsourcing practices in bank sector in light of Commercial bank of Ethiopia

3. Please indicate outsourcing quality and functions in bank sector in light of Commercial bank of Ethiopia

Thank you!

Appendix II- Interview Questions

Addis Ababa University
School of Commerce
College of Business and Economics

This interview is conducted to gather data for HRM Thesis entitled ‘assessment of outsourced practices and their effect on the efficiency of daily operational activities in the case of Commercial Bank Ethiopia Kirkos District’. I assure you that your responses will be used only for academic purpose. Can I proceed? Thank you!

1. How to explain outsourcing non-core business functions in CBE? Is it effective?

2. With how many agents the bank agreed in outsourcing non-core business functions? What business functions are allowed for outside service providers now and why about others?

4. How do you compare the challenges and opportunities before and after outsourcing? How to communicate the cultures of CBE to the outsourced employees?

5. If you have any comments and suggestions?

Thank you!