



**THE EFFECTS OF OUTSOURCING SERVICE ON INSTITUTION
PERFORMANCE:
(The Case of Addis Ababa University)**

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**A thesis submitted to Addis Ababa University School of commerce in
Partial fulfillment for the masters of Arts degree in logistics and supply
chain management**

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**DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN
MANAGEMENT
LOGISTICS AND SUPPLY CHAIN MANAGEMENT MASTERS
PROGRAM**

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Performance
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DECLARATION

I, Yared Tolosa, declare that this thesis entitled “**The Effect of Outsourcing service on institution’s Performance:** The case of Addis Ababa university” is my original work. I further confirm that this paper has never been submitted to any other university for any degree, diploma or fellowship. Finally, I declare that all source materials used in this research has been dully recognized and acknowledged.

Yared Tolosa

Signature _____

Date _____

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Table of Contents	Page
LIST OF TABLES	i
LIST OF FIGURES	i
ACRONYMS	ii
ABSTRACT	iii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Background of the Organization.....	2_Toc12379269
1.3 Statement of the Problem	3
1.4 Basic Research questions	4
1.5. Research Objective	4
1.5.1. General Objective	4
1.5.2. Specific Objective.....	4
1.6. Significance of the Study	5
1.7. Scope of the study.....	5
1.8. Limitation of the Study	5
1.9. Operational Definitions of Key Terms.....	6
1.9. Organization of the Paper.....	6
CHAPTER TWO.....	7
REVIEW OF RELATED LITERATURE	7
2.1 Definition and Types of Outsourcing.....	7
2.2 Arguments on Outsourcing	8
2.3 Theories Related to Outsourcing	8
2.4. Advantages and Disadvantages of Outsourcing	10
2.5 Types of Outsourcing Strategies.....	12
2.5.1 Selective and full outsourcing	12
2.5.2 Tactical and strategic outsourcing	12
2.5.3 Transformational outsourcing.....	13
2.6. Strategic Assessment for Outsourcing	13
2.6.1. Business-Value Assessment	14
2.6.2. Operational Assessment	15

2.6.3. Financial Assessment	15
2.6.4. Risk Assessment	15
2.7. Reasons for outsourcing	16
2.8 Drivers of Outsourcing.....	18
2.8.1 Organizational drivers	18
2.8.2 Improvement drivers	19
2.8.3 Financial and cost drivers	19
2.9 Summary of Major drivers for outsourcing	20
2.10. Types of Business Functions those can be outsourced.....	20
2.11 Factors to be considered for Successful Outsourcing	21
2.11.1 Availability of Skills Needed to Manage Outsourcing efforts.....	21
2.11.2 Assessing and Selecting Competent service providers	22
2.11.3 Availability of Well-Formulated Contract	23
2.11.4 Setting Service Level Agreement (SLA).....	23
2.11.5 Giving Attention to Employee Issues.....	24
2.12 Empirical Literature Review	24
2.13 Conceptual Framework	26
CHAPTER THREE.....	27
THE RESEARCH DESIGN AND METHODOLOGY.....	27
3.1. Description of the study area	27
3.2 The Research Method	27
3.3 Sources of Data.....	27
3.4 Target Population.....	28
3.5 Sampling frame	28
3.6 Sample Size and Sampling Techniques	28
3.7. Data Collection Instrument	30
3.8. Data Quality Assurance.....	30
3.8.1 Validity.....	30
3.8.2 Reliability	30
3.9. Procedures of Data Collection	31
3.10 Data analysis.....	31
3.11 Ethical Consideration	32

CHAPTER FOUR	33
DATA PRESENTATION, ANALYSIS AND	33
INTERPRETATION	33
4.1. Introduction	33
4.2. Response Rate	33_Toc12379331
4.3. Demographic Characteristics of Respondents	33_Toc12379333
4.4 Analysis of Interview Questions	42_Toc12379337
CHAPTER FIVE	43
SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND	43
RECOMMENDATIONS	43
5.1. Summary of Major Findings	43
5.2. Conclusions	45
5.3. Recommendations	47
5.4. Suggestion	48
Reference	49
Appendix 1	52
Appendix 2	56

LIST OF TABLES

Title	page No
Table 3.1 Reliability Analysis of Variables-----	31
Table 4.1 Response Rate of Respondents-----	33
Table 4.2 Demographic Characteristics of Respondent-----	34
Table 4.3 Summary of Reasons for Outsourcing-----	35
Table 4.4 Summary of How Outsourcing Affects Organizational Performance-----	36
Table 4.5 Summary of Benefits Gained After Outsourcing Cleaning Service -----	38
Table 4.6 Summary of Benefits Gained After Outsourcing Security Service -----	39
Table 4.7 Summary of Challenges Faced After Outsourcing Cleaning Service-----	40
Table 4.8 Summary of Challenges Faced After Outsourcing Security Service-----	41

LIST OF FIGURES

Title	Page No
Figure 2.1 conceptual frameworks-----	27
Figure 4.1 place of assignment of the respondents-----	35

ACRONYMS

AAU: Addis Ababa University

SPSS: Statistical package for social science

RBV: Resources based-view

TCT: Transaction cost-view

SLA: Service Level Agreement

HRMO: Human Recourse Management office

PPAO: Procurement and Property Administration office

P&SO: Peace and Security office

FMO: Facility Management office

ABSTRACT

The research examined the effects of outsourcing on the performance of organizations. Substantial uncertainties remain as to how outsourcing practices affect organizational outcomes, whether some practices have stronger effects than others, and whether complementary or synergies among such practices can further enhance organizational performance. The objectives of the study were to identify the reasons for outsourcing, to measure the effects of the outsourced activities on the organizations performance and to determine the key benefits gained and challenges faced from outsourcing noncore business functions. The methodology was based on Descriptive survey method with the procedures of quantitative and qualitative (mixed method) research designs to analyze the data collected from the selected campuses. The research employed the use of questionnaires which included the rating scale which was easier to administer to the respondents and also saved time. The key factors that influenced the choice to outsource a function/activity by management were to allow staff to concentrate on the core activities and to reduce cost. It also emerge that, the key benefits gained from both security and cleaning functions was to focus on core functions, reduce cost, increase flexibility and improve organizational performance. On the other hand the challenges faced while outsourcing those functions was the misalignment between the requirement of the AAU and the service provider, AAU did not set an evaluation criteria to measure the performance of the service provider and the challenges related to controlling the staffs during working hour. So using the above issues Setting well formulated service level agreement (SLA) in which a company helps to evaluate the service of a vendor and good service can be easily differentiated from bad service. The service provider needs to control the staffs during working hour using different controlling mechanisms such as giving rewards to staffs who are working properly. But the university also must establish formal groups in each campus who control and report the service provided by the service provider.

Key words: outsourcing, outsourcing functions, focus on core functions, service level agreement

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Nowadays, economic thought and the technological progress does not stand still, and every organization has an urgent need to keep up with the new ideas and technologies. With the emergence of such business process like outsourcing became possible to give any kind of work, starting with the newest technologies and project management and ending with cleaning facilities, to outside organizations. Herewith the use of outside labor force turns out to organization more cost and time-effective. This innovative form of business organization outsourcing started to appear more often in Ethiopia in recent years.

The advancement of information technology and globalization make easy to outsource activities which are non-core and less competitive business functions. The drive for greater efficiency and continuous cost reduction has forced many organizations to outsource activities which traditionally were carried out in-house. For this reason, organizations can focus on their core competencies, which contribute most to a sustainable competitive advantage (Gewald, 2010). The growth of outsourcing market is increasing in types that moves from activities that are noncore to the organization such as cleaning, catering and security, to include core areas of activity such as design, manufacture, marketing, distribution and information systems with almost the entire value chain open to the use of outside supply (McIvor, 2000).

Currently, there are few that are engaged in providing limited outsourcing services. The current outsourcing practice in Addis Ababa University is mostly security service, and janitorial/cleaning services.

Many organizations and institutions recognize the value in freeing themselves from costly, time consuming, and highly complex administration of the activities, they will hand over the day-today management of those non-core business functions to external service providers. As a result, they can save costs, gain profits and improve efficiencies from the current updated technology, and have time to focus on the strategic practices, leading to the organization's long term success and competitive advantage (Rothery and Robertson, 1995).Consequences of huge operational activities load have introduced challenges not only of providing but also of improving the quality of their services.

The global trend of outsourcing is growing fast in terms of complexity and market whereas the growth of outsourcing in Ethiopia is at its infant stage. It is dominated by non-core functions like Security and Janitorial service (Meresea, 2007).

Based on the above reasons, Addis Ababa University is planning to be efficient in its delivery of services to the clients; it has preferred 'outsourcing' since it is an option in its efforts to focus on the core activities and improve efficiency.

1.2 Background of the Organization

In Ethiopia, University College of Addis Ababa established, in the early 1950's which was then the only institution of higher education. The university college began offering courses in law and engineering as early as the academic year of 1952/53. In the late 1950s, programs in social sciences such as History, Geography, etc. were included. At the beginning, in-service programs were in line with regular pre-service programs. Later on, when Addis Ababa University (which was then called Haile Selassie I University) was inaugurated in 1961/62 academic year, a separate department known as University Extension was established and started offering continuing education in the evening to adults at diploma and degree levels (<http://aau.edu.et>).

In addition to evening and weekend programs, continuing education has been offered in the form of Summer In-service program particularly meant to upgrade the level of qualification of teachers and other education personnel working in the system of education of the country. The MA/SC level programs have now been added in addition to the first degree level programs that have been conducted for many years now. One category of provision of education which has relatively recently been added to the programs is the Distance Learning Program. This program which focused on graduate level education was launched as of the 2013/14 academic year. The program is intended to focus on Addis Ababa and its surroundings at the beginning and widen its access to learners in the different corners of the country and abroad over time (<http://aau.edu.et>).

In general the university begins with enrollment capacity of 33 students in 1950, AAU now has 48,673 students (33,940 undergraduate, 13,000 master's and 1,733 PHD students) and 8,709 staff (3,110 academics, 4,346 support staff and 1,253 health professionals). In its 14 campuses, the university runs 70 undergraduate and 293 graduate programs (72 PHD and 221 masters), and various specializations in health sciences.

1.3 Statement of the Problem

Outsourcing is a newly emerging concept in Ethiopia, particularly, in its existence in the academic institutions. Since the past few years, many organizations consider outsourcing with an assumption that if institution is unable to provide a service or product at less cost than, and of equal quality to, an external agent, then it should purchase the service or product from an external supplier. Organizations prefer to transfer non-core business functions to be performed by an external third party with the aim of reducing considerable transaction costs, improving quality of service delivery and to concentrate on their core competencies. Even though outsourcing really provides a numerous benefits to the client, it is not without having any negative impacts to the receivers of the services. Some of the problems that arise due to outsourcing non-core business functions are:

The problem related to outsourcing is the operational difficulties in that service provider may deny specific technical expertise, capability and capacity for delivering the desired performance. Gilmer (1997) points out during implementation of outsourcing, jobs can be handover from the service users to service providers performing the outsourced function, which may result in decreased salaries or benefits.

Similarly, the outsourced staff may have less loyalty to the client than if they were employed directly by the institution and express disappointment with the resulting inadequate services which affect the business sectors in many regards. Similarly, big problem with outsourcing emanate from the employees themselves as they are in doubt of loosing of jobs (Malhorta 1997).

On the same tradition, managers are required to regularly monitor, establish constant communication, and evaluate outsourced functions to be confident that they are beneficial to their organization. Hence, burdens of managers with transactional administrative tasks may increase once again (Guterl 1996). Moreover, negative attitude, resisting to new changes and morale problem are real problems that will cause ineffectiveness to the clients (Siegel 2000; Mobley and Maurer 1998). There is also evidence that outsourcing does not reduce costs as expected in some cases (Beaumont, N. and Sohal, A. 2004; Gonzalez, 2005).

According to Barthelemy, J. (2003:87-89), through a survey of nearly a hundred of outsourcing efforts in Europe and United States found that one or more of seven “deadly sins” underlie most failed outsourcing efforts. In spite of its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none.

These are some of the reasons for outsourcing failure; selecting wrong service providers; writing a poor contract; overlooking personnel issue; losing control over the outsourcing activity; overlooking

the hidden costs of outsourcing; and failing to plan an exit strategy. Most of the time, these outsourcing failures are rarely reported because firms are reluctant to publicize them.

It is obvious that outsourcing may bring many benefits to the organization with imposing some negative impacts. For successful performance of outsourced functions, it need to be carefully bid, contracted, and managed, with performance measures monitored regularly.

By considering the above issues this thesis was tried to examine how outsourcing noncore business functions influence the company's performance in terms of (customer satisfaction & service quality) by raising research questions as stated below. Moreover, the researcher believes that this paper will contribute to fill the gap by demonstrating the effect of careful contracting, managing and monitoring regularly for successful performance of outsourced functions.

1.4 Basic Research questions

This study is primarily aimed to answer, what are the effects of outsourcing service in the performance of Addis Ababa University and more specifically to answer the following basic research questions.

1. What are the main reasons for outsourcing security and cleaning service?
2. What are the effects of outsourcing noncore business functions on AAU performance?
3. What are the key benefits gained and challenges faced after Outsourcing the services?

1.5. Research Objective

1.5.1. General Objective

The general objective of this research is to assess the effect of outsourcing service in the performance of Addis Ababa University.

1.5.2. Specific Objective

The study was trying to address more specific objectives as follows:

- I. Identifying the reasons for outsourcing parts of its functions.
- II. To measure the effects of outsourcing noncore business functions on AAU performance.
- III. To determine the key benefits gained and the challenges faced from outsourcing non core business functions by the university.

1.6. Significance of the Study

The findings of this study are important for different concerned partners that are found at various levels. They are: higher officials who involve in the policy making process, higher education administrators and other concerned bodies. The practice of outsourcing in Ethiopia and awareness among the society is not well developed and research related to outsourcing focusing on Ethiopia is few. Accordingly,

- ❖ This research can serve as stepping stone for other research in similar area
- ❖ It may provide information to higher officials and policy makers about the current practices of outsourcing and the areas to be considered in the process of making policy decisions.
- ❖ It may give an insight to any of concerned bodies about the ongoing practices and challenges observed in outsourcing non core activities and
- ❖ The study could also be used as a spring board for further research work on the area. This is so because among other things this study seeks to accomplish are to assess a set of outsourcing practices that would prove to be an effective guide in the measurement of efficient performance.

1.7. Scope of the study

The scope of the study was limited to a manageable size in order to investigate the issue thoroughly. The research was confined only to Addis Ababa University for the sake of in-depth analysis with genuine investigation on the effect of outsourcing service in the performance of Addis Ababa University and research was covered main campus and three colleges that are operating in Addis Ababa University.

1.8. Limitation of the Study

Due to time, manageability of data and budget constraint, this research unable to incorporate all AAU's campuses which are found in Addis Ababa. Besides, to the best of researcher's knowledge there were problems of finding out research that are made on similar with the study topic in the Ethiopian context to support the study. Lack of cooperation of the respondents and their commitment to complete filling the questionnaires were also external variables that had impacts on the real output of the research work.

1.9. Operational Definitions of Key Terms

Business Process Outsourcing: - the delegation of one or more entire business process to an external service provider (Gewald and Dibbern, 2005).

Management Outsourcing: - An outsourcing solution in which the customer entrusts to an external services provider, the responsibility for operations and maintenance of one or more facilities (Borisova, 2011).

In-sourcing: -applying outsourcing's discipline to internal suppliers, often having them competes with external suppliers (Beaumont and Sohal, 2004).

Offshore Outsourcing: - the transfer of organizational activities carried out locally to product and service providers in other countries (Bojan and Lewandowski, 2010).

Out-tasking: -indicate work being done outside the organization, but the organization retaining full control over the operation over how it is to be done. The vendor has no discretion and performs a programmable task (Beaumont and Sohal, 2004).

1.9. Organization of the Paper

This study was organized in a way it comprises five chapters. The first chapter were consist of an introduction which consists of background of the study, statement of the problem, objectives of the study, significance of the study, delimitation of the study and definition of terms. The second chapter was discussing about the review of related literature. The third chapter deals with the research design and method of the study. The fourth chapter will discuss about presentation, analysis and interpretation of the data. The fifth chapter deals with the summary conclusions and recommendations of the study. Finally, references and a set of appendices and other supplementary documents of the study were included.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Definition and Types of Outsourcing

Outsourcing is a practice in which an individual or company performs tasks, provides services or manufactures products for another company functions that could have been or is usually done in house. It is typically used by companies to save costs. With an increasingly unstable business environment, organizations are continuously looking for better ways of gaining competitive advantage. One of the strategies that firms can employ to acquire sustainable competitive advantage is outsourcing.

According to (Maku & Iravo, 2013) outsourcing has been utilized for quite a long time, but much of the outsourcing until the late 1990s was focused on informational technology outsourcing. The objective then was often largely restricted to achieving operational efficiencies. Cox (2014) asserts that every firm engages in outsourcing to some extent. The decision regarding what functions to outsource and which ones to keep in-house depends on many factors from company to company such as the need to develop invest in resources, skills, and to stay abreast of to the evolving technology in any areas kept in-house. Heshmati (2003) in his recent survey points out that there is no general definition or measurement of outsourcing, he broadly describes it as “different kinds of corporate action related to all subcontracting relationships between firms and the hiring of workers in nontraditional jobs” (p. 99). Companies must source out work because there are others who can do it cheaper, faster, and better. Ashley gave the definition of outsourcing as “the allocation of risk and responsibility for performing a function or service to another entity”. In brief, 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. Internal outsourcing is “reallocation of functions in business system for saving control over its performance” and external outsourcing is “delegation of performance of separate or mutually related functions to external outsourcer”. For example, divisions of joint activities of external outsourcing include centers concept, cooperation, joint servicing, and participation in capital, whereas divisions of joint activities of internal outsourcing include long-term partnership, short-term partnership, and single partnerships. Depending on effective use of resources and reallocation of risk and responsibility outsourcing is divided into partial and full outsourcing 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”.

2.2 Arguments on Outsourcing

Ender and Mooney (1994) identified that the greatest shortcomings of outsourcing is staff retrenchment and the resulting negative impact on institutional morale. Preferably, they devised a set of guidelines for mitigating these negative impacts of outsourcing. The guidelines are: outsourcing of management personnel only, downsizing the staff by attrition, involving employees in selecting the contractor, and re-bidding the contract often. On the other hand, the increasing use of outsourcing over the last 20 years has been fuelled by arguments from management gurus and leading academics that an organization’s competitive advantage stems from its ability to identify, concentrate on and develop its core competencies and activities, and outsource anything which is non-core (Handy, 1982; Kanter, 1989; Peters and Waterman, 1982; Prahalad and Hamel, 1990). However, there is some disagreement concerning whether outsourcing should only apply to the non-core activities an organization or if it can also include core activities. For Prahalad and Hamel (1990), core competencies and activities are the secret to an organization’s success and should not be outsourced. Gay and Essinger (2000), take a different stance, they do believe that outsourcing can embrace the contracting-out of both core and noncore activities. However, to complicate the picture, it is sometimes difficult to define what is or is not a core activity (Mitzberg et al., 1998). Nevertheless, regardless of which activities it embrace, or how these are defined, there is a great deal of evidence to show that outsourcing is increasingly taking over from vertical integration as the preferred approach to organizing the provision of many goods, processes and services (Domberger, 1998; Gay and Essinger, 2000; Takac, 1993).

2.3 Theories Related to Outsourcing

Outsourcing consists of different activities and each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. Much of the studies on outsourcing have been affected by three approaches: Resource-Based View, Core Competency Approach, and Transaction Cost Theory.

a. The resource-based view - the resource-based view (RBV) is an economic theory, which discusses the strategic resources available to a firm. The main principle of the RBV is that, the basis of a sustained competitive advantage lies in the application of valuable resources, which are at the

firm's disposal (Wernerfelt, 1984; Rodríguez and Robaina, 2006). The RBV considers that the firm must possess unique resources that enable it to achieve competitive advantage. Resources need to be valuable, rare, non substitutable and non-imitable. Resources therefore requires to display each of the above four characteristics to be a possible source of a sustainable competitive advantage (Barney, 1991). This advantage can be attained if the strategy being implemented is value-creating, and not being implemented by present or future possible competitors. He also stated that that sustainable competitive advantage is a result of possessing immobile resources that permit clear product or service differentiation. However, not all resources have the potential to be a source of sustainable competitive advantage for the firm. Resource based view consider that resources can be exploited by means of contracts (Barney 1999), and so this perspective forms a theoretical framework that assists in the decision-making about which activities to perform in-house and which to outsource. Resource Based View (RBV) has been employed for outsourcing decisions, shifting the attention from transaction costs and opportunism to competitive advantage. The key principle in RBV is that, unique organizational resources are the real source of competitive advantage and has become a useful framework to outsourcing some of the organizations functions. Within RBV, the core competences approach is one of the most powerful frameworks to explain why companies turn to outsourcing and it suggests that 19 on organization should invest in those activities constituting core competences and outsource the rest. Resource based view also points out that improved performance in a firm can be achieved through focusing on those resources that provide the core competences.

b. Competence-based view - Competence-Based view is based on the firm's resources and capabilities that will give an organization a competitive advantage. The essence is that core competencies should be kept in-house while the other things that the organization does which are not deemed core, or critical to its mission or function, should be considered for outsourcing without any loss to future requirements in expertise. In order to maintain a sustainable competitive advantage, the organization competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the business processes. Therefore vendors' competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Rodríguez and Robaina, 2006). The core competency perspective is useful in prompting serious consideration about the functions which are truly cost-effectively done in-house, and those which could be outsourced. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. However, the meaning of the term core competence is not

clearly understood since terms such as resource, capability and competence are used interchangeably by researchers (Ozbag, 2013). A firm's resources can be defined as any production factors that are available to the firm and they are classified into five categories; financial, physical, human, technological and reputation. The first two constitute the firm's tangible resources, which are easy to assess and identify, while the others are intangible resources, which are assets with sufficient potential to achieve competitive advantage. The resources and capabilities are therefore complementary in order to sustain competitive advantage.

c. Transaction cost- view - The transaction-cost view is where the decision to outsource is determined by the relative transaction and production costs associated with the process or service. Transactional costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers. The goal of any organization is to these reduce cost and to achieve cost efficiency (Zack and Singh, 2010). According to Dhar and Balakrishnan (2006), production costs and coordination costs are the only costs involved for any service or to produce any product. Production cost is the cost incurred to make the product or to provide the service and it includes the cost of labor, material, and capital. Coordination costs include monitoring, controlling and managing the work internally. For the outsourced process, the coordination costs are called transaction costs. Manhnke et al, (2005) stated that the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process. The decision to outsource is to reduce transaction costs as much as possible and thus the transaction cost theory (TCT) perspective is useful in examining the contributions to transaction costs, and how these might be reduced.

2.4. Advantages and Disadvantages of Outsourcing

a. Advantages of Outsourcing

The most significant advantages of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility. First, many researchers agree on the fact that by 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 . Second, outsourcing in general is held toward one of the main goals as cost savings.

The special necessity arises when a certain resource, either human or equipment resources, is not needed full time, or the efforts to obtain the resource cannot be justified. For example, for a medium-size business keeping technical expertise and maintenance is needed occasionally. Since

the cost of hiring and training an engineer who is competent in computer support is too high, it was beneficial for the organization to outsource this task. Third, by outsourcing companies have the possibility to access to highly qualified personnel, who may not be available to the client organization and fully exploit the suppliers' investments, innovations, and specialist capabilities. Fourth, an important reason for outsourcing consideration is achievement of an improvement in performance that the outsourcer company might offer due to economies of scale. Large scale can provide a variety of functions and opportunities which will help to save the best available worker, who might not want to work in a less stimulating consumer environment. Additionally, with service providers the level of operational experience is expected to be higher, because of the greater concentration of staff on tasks as compared to internal operations. Fifth, flexibility is the key reason for outsourcing for many companies. Outsourcers' contracts and the jobs of their employees depend on the degree of flexibility to reflect changing business environments.

b. Disadvantages of Outsourcing

Main disadvantages of outsourcing are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams. First, disadvantage related to the loss of control over the outsourced operations stems from the reason that managing external resources requires special skills which is a combination of the skills of people and process management, contract management, and power negotiation. Second, almost every outsourcing contract has terms of security and confidentiality spelled out, but the execution and audit are always difficult. In financial services, requirements keep information known to investment bankers away from traders, brokers, and other individuals who might attempt to use such insider information improperly. Third, one reason to outsource is the expectation of receiving better service from the outsourcer than from internal staff. Outsourcer has to be chosen in that particular way to ensure that there is no bad influence on the quality of goods and services produced. Otherwise, company may lose its position on the market. Fourth, company will sign a contract with the outsourcing company that will cover the details of the service that they wasproviding. Anything not covered in the contract wasthe basis for the company to pay additional charges. For example, an analyst may intentionally exclude costs to favor one decision, such as selecting one provider versus another, choosing in-sourcing over outsourcing, or staying in a particular business or not. Fifth, the outsourcing is often related to the firing in employees' minds. It is also a problem for the organization's top management team to decide how to reallocate the existing employees. Often after outsourcing a part of the original team moves from outsourcing party to the outsourced one, which

in turn causes major changes. According to Bragg, sponsoring such a major change and seeing it fail can lead to termination of one or more of a company's management staff.

2.5 Types of Outsourcing Strategies

Brown and Wilson (2005) distinguished different categorizations of outsourcing as described below.

- Selective and Full outsourcing
- Tactical and Strategic Outsourcing
- Transformational outsourcing

2.5.1 Selective and full outsourcing

Outsourcing allows for an institution to concentrate on its core competencies as stated previously. Outsourcing can be classified into two categories depending on the type of human capital and the type of work function. The first type of outsourcing is called selective outsourcing and is classified as a tactical move to outsource unwanted functions within an organization. The second type of outsourcing is more extensive and is called strategic-shift outsourcing, which focuses on bringing in highly demanded specialists that are limited in supply. Selective outsourcing enables service provider companies to reduce costs while enabling the institution to put their attention elsewhere while strategic-shift outsourcing also conquers the same goals as selective outsourcing, but also seeks to create a mutually beneficial relationship due to the sheer size of the contract agreement and its implications for both parties. Outsourcing allows a business to focus on its primary mission, not on managing an auxiliary service that may compete with private sector alternatives and not provide a real return for institutional dollars (Bartem and Sherry, 2001).

2.5.2 Tactical and strategic outsourcing

Tactical outsourcing is used by institutions to resolve specific problems being experienced by an institution, viz. a lack of financial resources to make capital investments, inadequate in house managerial competence, or a desire to downsize, etc. Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. It is resulted in visible benefits in the form of enhanced cost savings, minimizing the need for future investments and resolving staffing issues. It also involves execution of a business process following the existing rules. Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor (Hussey and Jenster, 2003). This is a common method used by large mature corporations for handling high-

volume repetitive tasks and used for processes such as payroll transactions, HR administration, and procurement. Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers.

2.5.3 Transformational outsourcing

Transformational outsourcing is commonly used to redefine the business (Linder, 2004). It enables an institution to retain leadership position, build sustainable competitive advantage, and generate highest value for an institution. Some issues addressed by transformational outsourcing are good governance, maturity of business process knowledge and adequately drafted and monitored service level agreements (SLAs). The levels of risk in strategic and transformational outsourcing are higher than the tactical form, but are commonly shared with the outsourcing partner. Tested risk mitigation plans, high-security levels, mature project management skills and proven business continuity plans need to be put in place before an arrangement can begin in this direction.

2.6. Strategic Assessment for Outsourcing

The majority of outsourcing failures can be traced back to organizations that short-change or eliminate the following critical strategic assessment, thereby failing to lay a solid foundation to make objective, data-driven outsourcing decisions. As stated by Power et al. (2006) the goals of conducting a strategic assessment are: To develop a clear vision of outsourcing, setting tangible goals and objectives, to determine how outsourcing fits into the overall business strategy, to select and engage executive sponsors for the outsourcing endeavor, to identify the key functions and processes suitable for outsourcing and to determine whether the engagement should be onshore, near shore or offshore. In 2006, Power et al. also noted that, the goal of the strategic assessment is to examine the current and analyze the future strategic position of the organization to understand where outsourcing as a strategy fits in. It is during this stage that the organization needs to understand both the pros and cons of using outsourcing as a strategy. An analysis of the pros and cons, and the fit does outsourcing as a strategy fit the business needs will form the foundation of the outsourcing plan. Failure to lay this solid foundation in place will result in questionable outcomes in the future stages of the outsourcing life cycle. As a simple example, consider what would happen if you incorrectly analyze a particular function of your organization as being a candidate for outsourcing. Using this incorrect information, you move through the needs analysis, vendor selection, negotiating and contracting phases and then eventually turn this misinformation over to the vendor. You have

just wasted enormous effort owing to an incorrect up-front assessment for which you will have to pay heavily. Eventually, you will have to bring this work back in-house and pay substantial costs for the error. The four major elements of the strategic assessment phase include: business-value assessment, operational assessment, financial assessment and risk assessment.

2.6.1. Business-Value Assessment

The business-value assessment involves three stages: analysis of the organization's core competencies, setting up an executive sponsor team to oversee the outsourcing project, ensuring that the outsourcing plan is aligned with the current and future overall business strategy.

Core competencies-during the business-value assessment, organizations must examine their business to decide what their core competencies are. Many organizations struggle to determine this true focus of their business capability objectively. Core competencies are the combinations of special skills, proprietary technologies, knowledge, information and unique operating processes and procedures that are integrated into the organization's products and services and are unique differentiators for the organization's customers (Ibid, 2006, p. 41).

Executive sponsor team- a core component of conducting a business-value assessment is to have the right team in place to conduct the assessment the executive sponsor team. It is vital that organizations have a dedicated executive level team that sponsors the outsourcing program. Strategic objectives, such as outsourcing initiatives, must be come from top echelon of a company. Top management must articulate the goals and objectives of outsourcing initiative, and communicate how the process will benefit the company Yenus et al.(2005).Additionally; executive-level teams can make several critical contributions to the strategic assessment process Power et al. (2006). The goal is to get a wide perspective from multiple disciplines and identify critical success factors and problem areas that wasthe foundations for compiling a comprehensive business case for outsourcing. As stated by Power et al. (2006) the outsourcing team wasresponsible for the following areas: defining and documenting key business objectives and outcomes, identifying the products and services that are candidates for outsourcing, developing an understanding of the external market place, including the vendor's capabilities and how that can be used to help meet the organization's business objectives, clarifying roles and responsibilities, leading and managing change and defining the organizational design and culture that wasrequired to achieve its outsourcing objectives successfully (Ibid, 2006, p.43-46).This comprehensive accountability means, in effect, that the outsourcing team is responsible for creating the outsourcing business case.

Alignment with the business strategy- the last component of the business-value assessment is to examine the organization's business strategy. This includes outlining its current business strategy and how this strategy may change in the future. When considering whether to outsource or not, it is important for the organization to outline its strategies, both current and future. The strategy also needs to consider the extent of the alignment between and shared knowledge about customers and core business process Gasvoda (2003).

2.6.2. Operational Assessment

In the operational assessment of your organization, you must determine its operational baseline, including its process capabilities. You will need to know whether your organization has mature process capabilities to support the proposed outsourcing initiatives. Similarly, you will need to know whether there are established methodologies to measure performance of the proposed outsourcing initiative and benchmarking data in place to assess the maturity of the organization as well as the competitiveness of the vendor's proposal. It is during this phase that the organization must be able to answer the questions regarding the support ability of its operations, including: does the organization understand all the related internal and external dependencies across its entire business enterprise, as well as the internal and external impact associated with the proposed outsourcing initiative? Outsourcing normally involves moving one or more processes to an external vendor. It is hence important to know the nature of the processes before they are outsourced Power et al. (2006).

2.6.3. Financial Assessment

According to Power et al. (2006) probably the most talked about reason for outsourcing is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of a variable cost.

2.6.4. Risk Assessment

If there were no risks, there would be no need for managers. Risks and uncertainty is what management is all about. If everything were certain, and hence predictable, there would be nothing to manage. Risk is always a factor of every project. Risk assessment takes an aggregate view of the organization and the proposed outsourcing initiative and identifies risk and associated risk mitigation strategies. When you consider that risk is associated with any project, you must segment the risk into different categories.

2.7. Reasons for outsourcing

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

A. Focus on strategy: accompany manager typically spent the bulk of each day handling the detailed operation their functional areas. By outsourcing this function accompany can give the tactical part of each manager's job to supplier which allows the management team to spent more time on strategic issues as market positioning and product development (Bragg,1998)

B. Focus on core functions: Successful outsourcing allows the organization to focus in house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission (Choi, 2008). Sometimes the company may outsource those functions that are core function at the moment, but which are expected to become less important in the near future due to change in the nature of the business. Brown and Wilson (2005) also support this point; the company would keep only those core functions in house when the staff can do better than the supplier.

In addition, a company could even outsource a function that is considered as a key to survival if it can find a supplier that can perform the function better. In sum a company need to keep its functions in house if the functions are core functions as well as there is no supplier that can do it better than the company itself.

C. Avoid major investment: Due to lack of investment some functions in a company are not as efficient as it could be. If the company keeps this function in-house, it is forced to make a large

investment for the function in order to modernize it. By outsourcing the function, such function the company permanently avoid having to make this investment (Bragg, 1998). The value of using outside provider is clear: better service for less investment of the capital and management time (Wilson and Brown, 2005).

D. Assist fast growth situation: If the company is rapidly acquiring market share, the management team was stretched to its limit building the company up and to handle the volume of the business. In such situation the management team will desperately need additional help in running the company by focusing on a small number of core activities (Bragg, 1998).

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

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

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

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

way to access the skills necessary to properly deliver services. On top of this organizations also benefit from having their staff work with the service provider's specialists (Choi, 2008).

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

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

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

2.8 Drivers of Outsourcing

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments (Bhattacharya, 2003) and also the technical reasons for outsourcing are quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale. Among the tactical drivers the most prominent ones are shortage of skilled workers and cost reduction opportunities. Strategic reasons include refocus on innovation and core competencies. Leading organizations are shrinking their business cycles and tightening feedback loops (Brown and Wilson, 2005; Greaver II, 1999), and increasing quality standards. According to Chamberland, D. (2003), drivers of outsourcing have been classified into three categories: organizational, improvement, financial and cost drivers as discussed below.

2.8.1 Organizational drivers

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging emerging technologies and achieving higher stakeholder value.

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 noncore 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. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries Chamberland, D. (2003).

2.8.2 Improvement drivers

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with superior providers. Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement. An institution when realizes that its in-house skill-set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities Chamberland, D. (2003).

2.8.3 Financial and cost drivers

The objectives of this initiative are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology Chamberland, D. (2003).

2.9 Summary of Major drivers for outsourcing

Chamberland, D. (2003)

1. Organizational drivers

- To achieve a greater focus on core business
- To increase flexibility to deal with ever changing business conditions
- To gain access to products, services and emerging technologies
- To assign operational issues to an outside expert
- To redirect resources from non-core activities to greater focus in serving the customer

2. Improvement drivers

- To improve operating performance, quality, timeliness, and productivity
- To obtain expertise, skills, and innovative ideas
- To obtain technologies which otherwise will not be available
- To improve management and control of operational processes including risk management
- To improve credibility and image by associating with superior providers
- To eliminate the fixed cost of internal staff by moving the function to a supplier
- To become more flexible, dynamic to meet the changing opportunities

3. Financial and cost drivers

- To reduce investment in assets
- To reduce the invested capital funds in non-core business functions
- To reduce or control operating costs
- To access an outside provider's lower cost structure
- To achieve cost reduction with enhanced performance
- To handle varying demand more efficiently because of economies of scale

This is achieved by empowering the institution to handle fluctuations in the volume of work, eliminating the fixed cost of internal staff and move the function to a service provider who was paid only for the work done. Outsourcing is the best solution for applications that need to be developed or modified for a specified time or require high-manpower resources at one point of time.

2.10. Types of Business Functions those can be outsourced

The concept of outsourcing non-core functions of a business has been used in one form or the other by the companies worldwide. Divesting a business process allows a company to focus on the core functions of its enterprise and alleviates the need to build skills in areas tangible to its business goals. Outsourcing enables organizations to consistently perform the outsourced business process

more effectively than any of their competitors Bhimrao Ghodeswar and Janardan Vaidyanathan, (2008:23-38). Identifying non-core business functions is critical in determining the area that need to be outsourced. This is most often a tough job since most business functions are interconnected very closely. The main task is to identify and separate them, which is typically done by top management Telegenisys Outsourcing Excellence (2008). A set of functions that can be outsourced is different for each company and it is determined by the specificity of its activity Borisova (2011). First of all, it is necessary to identify what processes, forming the strengths of the company, better to keep at home and further develop to increase competitiveness, and what can be done by third parties on a much higher level of quality.

In practice, the most common form of implementation of the outsourcing is the transfer of the following options: accounting and tax calculation, payroll staff, legal service, human resource management, IT systems and database management, marketing communications and public relations, advertising services, translation services, project management from design to implementation, issues of economic, and informational, logistics management and supply chain, some types or stages of production (assembly and testing), cleaning/janitorial, and maintenance, transportation management, its maintenance and repair (aircrafts and ships, roads, railways), physical security service and others.

2.11 Factors to be considered for Successful Outsourcing

2.11.1 Availability of Skills Needed to Manage Outsourcing efforts

Companies need to ensure that employees have the skills that will allow them to contribute to the goals and objectives of the organization. One respondent company reported that it uses a team based approach to the set skills required to for each class of employee. Such a special team should consist of groups of employees and managers, who were considered to be, understand experience in the working area Yenus et al. (2005:185-202). Furthermore, Thoms (2004) stated that, in order to be successful at leading outsourcing efforts, you must develop certain competencies. Good decision making in high uncertainty environments is a critical skill when managing outsourcing efforts. While outsourcing initiatives are not entirely novel to organizations, their complexity, risk and impact on organizations has never been higher. A consequent factor of this is the need to make decisions in uncertain environments. You must be able to make decisions with incomplete information, have the foresight to plan ahead using scenarios, think through various alternatives, and most importantly find ways to reduce the uncertainty associated with making decisions. Hence, it is very important to have good marketing, negotiating and relationship-building skills are essential for

building a good outsourcing relationship with your vendors. To do this successfully, it is important that you have excellent negotiating skills and can manage the relationship so as to attain the organizational objectives with minimal hostilities with the vendor.

2.11.2 Assessing and Selecting Competent service providers

Considering a company does not jump on the bandwagon and instead takes due diligence in planning a concrete outsourcing strategy, one of the critical steps is choosing a vendor capable of complimenting the company's needs Thoms (2004). In essence, vendor selection is just as important as the decision to outsource. Although it is difficult to assess every aspect of a vendor, the following list provides areas a company should be looking at: company Stability, references/reputation, flexibility of the contract terms, scope of resources, additional value added capability, location, price, cultural match, existing relationship, and staff Turnover, We can agree that some of the areas listed above such as price, quality and contract management are on the list of top priorities, but what about some of these other intangible aspects such as a cultural match.

According to (Kurat, 2011) as quoted in Borisova (2011) there are additional criteria for the company to evaluate the service providers. This will help to perform at least a preliminary analysis of which company is dealing with (Kurat 2011):

Quality commitment-The vendor should be quality focused. The company should as providers what measures they have for quality assurance and quality control.

Cost-Provider's price policy should enable customers to save money and still choose outsourcing as opposed to in-house development.

Additional resources and capabilities-The vendor should have resources and capabilities that are not available to the customer internally or with other providers. These days 'customers are smart and are looking for additional capabilities of a vendor at competing price. Smarter vendors can use it as advantage over competitors.

Prior work-The vendor should have experience of working with other organizations. The company should check provider's portfolio and if there are no testimonials available, the company should contact some of its clients and ask them what kind of experience did they have or still have with this vendor.

Contract terms-The terms of contract should offer flexibility to the client to modify the requirements or terminate the contract easily if required. The best development methodologies for fast and frequent changes are agile-based.

Confidentiality-How secure is the customer's data at the vendor site? The vendor should have well-defined security policies in place.

2.11.3 Availability of Well-Formulated Contract

Outsourcing is required to comply with all federal, state, and local laws and regulations as well as an organization's own policies and procedures. Although it is easy to summarize the restrictions placed on outsourcing in once sentence, it is far more difficult defining such in terms of a contract and without proper contract management; an outsourcing initiative can turn into an ugly legal battle. Although legal action should only be taken as a last resort, it is important for an organization to be aware of the various governmental, environmental and organizational liabilities that exist. Before any outsourcing initiative can begin, contracts are generally drawn up and agreed upon by each side. The main function of the contract is to identify a specific pricing structure and service level agreement (SLA), both of which are critical to any outsourcing initiative. In addition to the SLA, a contract will identify a governing law for the two parties in addition to establishing what regulatory laws and tax implications apply. In fact, identifying the tax implications of an outsourcing project at an early stage is crucial Thoms (2004). In the same way, Tafti, (2005:549-560) confirmed that one of the most important component of any outsourcing deal is the contract. It describes the services that a vendor is to provide, discusses financial and legal issues, and becomes the blueprint for the life of the agreement.

2.11.4 Setting Service Level Agreement (SLA)

As stated by Thoms (2004) a well-defined and constructed SLA will aptly set expectations for both sides of an outsourcing relationship while providing targets for accurately measuring performance to those objectives. There are various steps to establishing an SLA between parties. The first involves negotiation whereby both parties will agree to the terms of service.

Once established and agreed upon, the various methods of payment are also identified. Of the important aspects of any SLA are the methods by which a company will evaluate the service of a vendor. In other words, did the vendor perform the service in line with the agreement?

Further Thoms (2004) added that when properly chosen and implemented, the SLA metrics: First measure the right performance characteristics to ensure that the client is receiving its required level of service and the service provider is achieving an acceptable level of profitability. Second it can be easily collected with an appropriate level of detail but without costly overhead, and tie all commitments to reasonable, attainable performance levels so that "good" service can be easily

differentiated from "bad" service, and finally giving the service provider a fair opportunity to satisfy its client.

2.11.5 Giving Attention to Employee Issues

The efficient management of personnel issues is crucial because employees generally view outsourcing as an underestimation of their skills. This may result in a massive exodus even before an actual outsourcing decision has been made. Secrecy in outsourcing feasibility and decision making is very difficult, and open communication is the key to managing personnel issues in outsourcing. When attempts at secrecy fail, rumors start spreading. As soon as employees know that outsourcing is under consideration, counterproductive anxiety arises and employees begin handing in their notice in anticipation of outsourcing Barthelemy(2003:87-89). Moreover, Barthelemy argues that Firms that contemplate outsourcing must face two interrelated personnel issues. First, key employees must be retained and motivated.

For most activities, outsourcing does not mean transferring all the employees to the vendor. When an activity has been performed in-house for a long period of time, firm-specific knowledge about how to run the activity smoothly has accumulated. Employees who possess this firm-specific knowledge must be identified. To keep them in-house, the management must be prepared to offer them higher salaries and benefits. A second, personnel issue is that the commitment of employees transferred to the vendor must also be secured. As a manager in charge of finance outsourcing contract put it: "Retention of knowledge and skills is a key issue. Irrespective of the profile of the service provider, the actual work is done by individuals harnessing their skills, knowledge, experience, and the technology available to them. If high staff turnover is experienced, then the quality of the work will deteriorate noticeably, particularly in specialist technical areas and analytical work." The outcome of an outsourcing effort is highly dependent on the commitment of employees who have been transferred to the vendor. Employees working in activities that do not belong to the firm 'score business are often given low-priority. Once they are transferred to specialist vendors, they may be offered opportunities for better career paths in what is regarded as the vendor 'score business. To many employees, vendor employment is more attractive than continue deployment in an organization where the outsourced activity is viewed as a mere utility Barthelemy (2003:87-89).

2.12 Empirical Literature Review

A.kwansi A. (2012) conducted an empirical study on effect of outsourcing on organizational performance the case of selected financial institutions in Ghana. The study found that in the period

of outsourcing the performance of the service providers is not measured for that most of the outsourcers do not have a built-in performance management mechanism. The coordination of in-house tasks and outsourced activities is not customary in most areas. The institutions mostly oversight and control what has been done by service providers or suppliers. In most cases no internal system is established in order to do things in a well coordinated as well as in a professional manner. In outsourcing practice of the institutions, preparation and planning in outsourcing activities is not developed. In addition, no market survey is conducted to assess what the market provides.

The study conducted by Charity N. (2014) on the effect of strategic outsourcing on organizational performance a case study on Bid co Africa Limited indicated that Even though the implementation process shows partially good results while in part it creates negative image for outsourcing. The achievement registered is cost saving in cleaning and security and ease of administrative burden. The complaint is high in terms of completion time, quality, customer satisfaction, integrity and deriving service assets utilization related to poor service level agreement, contracts administration and ethical problems of providers.

Sang (2010) examined outsourcing practices in Kenyan public universities to investigated the challenges and opportunities presented by outsourcing activities in the universities. The finding was that the universities involved in outsourcing had some general policy statements on outsourcing but without known regulatory framework. He also identified Security and Cleaning as the major activities currently outsourced in public universities while the least outsourced activity was catering. The study established that outsourcing enables cost reduction and improves efficiency. The major challenges of outsourcing at public Universities included negative attitude of staff, poor monitoring and evaluation, non-cooperation by students to the outsourced and interference by community. The study affirmed that for a university to successfully outsource its functions, it requires proper evaluation and planning. Though the study by Sang (2010) enumerated challenges in Business process outsourcing at Public Universities, the findings cannot be replicated to other organization due to unique nature of every organization. The study was also based on a learning institution and not manufacturing organization.

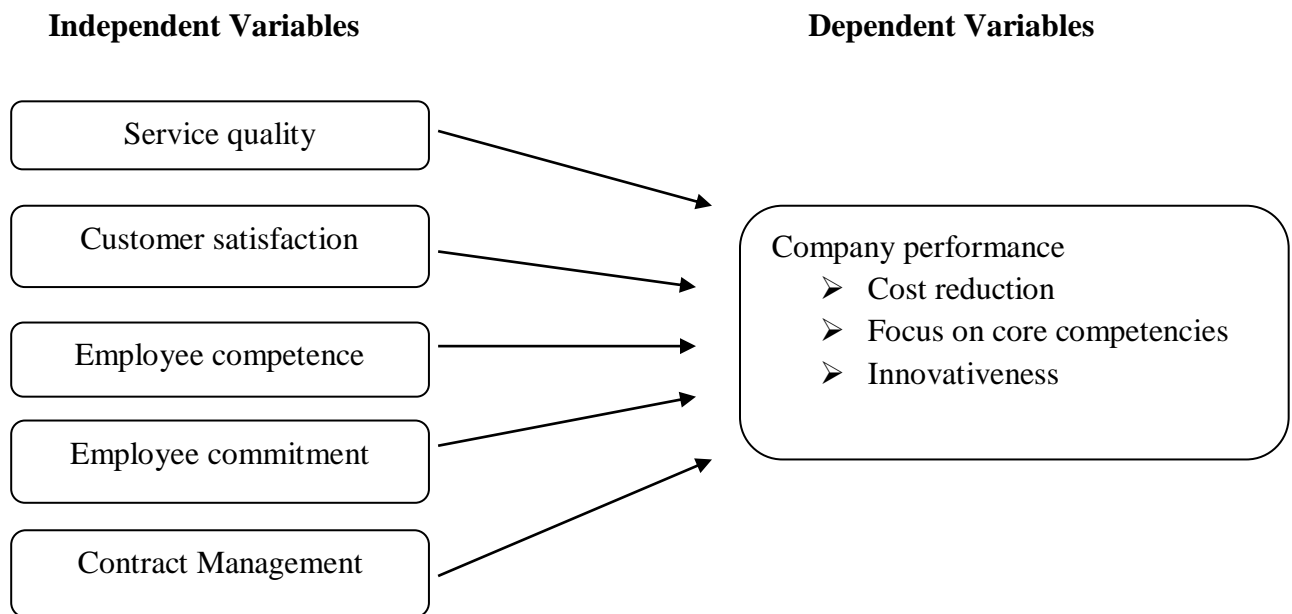
According to a research conducted by Meresa M. (2007) on outsourcing in Ethiopia revealed that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, Accounting and Administration outsourcing service providers will face great challenges form Ethiopian organization to deliver their services. This is mainly due to the organizations fear of loss

of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

2.13 Conceptual Framework

According to the results of the literature review, a conceptual model for the study was adopted and modified. This model consisted of the following components of dependent and independent variables.

Figure 2.1: conceptual framework



Source: Adopted and modified from Tewodros Tenkir AAU thesis, 2009,

CHAPTER THREE

THE RESEARCH DESIGN AND METHODOLOGY

Introduction

This part discusses concerning method of the study. It deals on the subject nature and type of the study, sources and types of data, techniques of data collection, sampling techniques, as well as data analysis.

3.1. Description of the study area

Outsourcing is a form of sub-contracting some of the processes of a specific business execution to a certain or group of suppliers/service providers. It involves the transfer of daily routine activities and/or partial business tasks of an organization to an external service provider. Although there are other organizations that started outsourcing some part of their functions, this study mainly focus on the outsourcing practice of Addis Ababa University. Moreover, this research focuses only on the following activities: Security service and Cleaning/Janitorial service in the case of Addis Ababa University.

3.2 The Research Method

Descriptive survey method was employed in this study with the assumption that it could enable the researcher to reveal the effects of outsourcing service at Addis Ababa University. Moreover, this method is appropriate because it helps in obtaining large variety of data related to the problem under the study. To this end, the following procedures of quantitative and qualitative (mixed method) research designs was employed to collect and analyze the data. Employing mixed approach enables the researcher to look from different perspectives and the context based practice from participants view. This method was chosen with the assumption that helps to have data as it exists and to gather information related to the problem under study.

3.3 Sources of Data

Both primary and secondary sources of data were used. As a primary data the researcher used both interview and questionnaires. An in-depth interview was conduct to the university facility management director and peace and security director, who are considered as contract administrator of both outsourced services and their ability to provide specific information on the actual performance of outsourcing providers and the respective obstacles involved. In addition to this data was collected by distributing structured questionnaires i.e. open-ended and closed-ended questionnaires to employees

who have an exposure to outsourcing functions. The questionnaire a likert scale ranking (5-point likert scale) where 5 stands for strongly agree 4 stands for agree 3 stands for neutral 2 stands for disagree and 1 stands for strongly disagree.

Other essential secondary sources included in this study will include: relevant books, academic journals, proceedings, books, articles contributed by deferent authors, internet based information which contains relevant information related to the subject under the study. Policy documents and the like will also be consulted thoroughly.

3.4 Target Population

According to William G.Zikmund, 2010, a population is any complete group that shares some set of characteristic. Target population is the intended group for the study. The target populations of the study was the directors, team leaders and employees of the selected campuses and departments of the university and the selection was made by considering their annual budget and their human capital of outsource. The target population of this research refers to be 667 employees who are working in four departments and four campuses of the AAU.

3.5 Sampling frame

Since the study is concerned with Addis Ababa University, the participants of the study are employees of the university. The study focuses on the population who are currently working in the selected departments and campuses of Addis Ababa University. Currently AAU has 14 campuses with 9962 employees. The sample frame is a population list from which the sample will draw. To make the study manageable, the sample was drawn from the four departments (PPAD, HRM, P&SD, FMD and the four campuses i.e. college of natural science, college of health science, College of business and economics and Main campus) because those departments have direct relationship with the study area. The four campuses of the selected departments have a total of 667 support staffs. From those employees 345 of them are messengers, carpenters, welders, Forman's and electricians who they are daily engaged in routine transactions and they do not have enough knowledge about the subject of the study so they are excluded from the study. Therefore, this study had targeted the total target population size of 322 Administrative and Professionals.

3.6 Sample Size and Sampling Techniques

For the purpose of this study, the sample campuses under Addis Ababa University are main campus, college of natural science, college of business and economics and college health science. Regarding respondents sampling, procurement and property directorate experts, Peace and security director and

experts, human resource senior officials and experts, facility management officers and senior experts were selected and included in the sample. Whereas heads of all the above offices of the university was included and selected on the basis of availability sampling techniques because they are the only available bodies to give response to this study that means they are the right persons at a time. This was done on the basis of simple random sampling techniques. Simple random sampling gives each units of the population equal opportunity of being selected Creswell, J. 2003. The sample size was determined using the **Slovin's formula**.

Therefore,
$$n = \frac{N}{1+Ne^2}$$

Where:

- _ N is the population size
- _ n is the sample size
- _ e is the margin of error

Applying 7% error margin, the sample size for the study was 125 members of the target Population. Therefore, the study's sample size of 125 is fair enough to represent the target population of the study area.

The researcher deemed necessary to take independent sample for each Addis Ababa University departments to ensure equal representation because departments have different number of employees. Therefore, the sample size for each department was calculated by using proportion. The study used proportionate sample allocation formula so as to make each department sampled identical with proportion of the population. Therefore, proportional sample size from each department was calculated by using the following formula.

$$ni = \frac{n \cdot Ni}{N}$$

Where:

- ni= sample size for individuals in Addis Ababa university in the selected departments
- Ni= the total number of employees in each Addis Ababa university selected departments
- N= the total number of public employees in Addis Ababa university selected departments
- n= the total sample

Table 3.1: Proportional sample for each department

No	List of departments	Total No of employees in each department	No of sample size in each department
1	Procurement and property administration	110	21
2	Facility management	315	59
3	Peace and security	168	32
4	Human resources management	72	13
Total		665	125

3.7. Data Collection Instrument

For the purpose of this research, questionnaire and interview was among the main data gathering instruments.

3.8. Data Quality Assurance

3.8.1 Validity

To ensure validity of instruments, initially the instrument was prepared by the researcher with guidance from the advisor. The questionnaire was developed with due care containing multiple questions, and discussion questions. Therefore, in order to ensure validity of the items incorporated in the instrument professionals from Facilities Management Process, Human Resource management Process, procurement and property office and peace and security office examined the instrument before it was distributed. Accordingly, based on their comment the questionnaires were distributed to the sample population.

3.8.2 Reliability

The internal consistency of items incorporated in the instrument was checked by using Cronbach's Alpha. Mean of each variable was computed and then the reliability was checked based on the Means.

Table 3.2 Reliability statistics of the instrument

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.819	.828	37

As indicated in the Table 3.2, the Cronbach's Alpha test implies that the instrument's internal consistency as 82.8% which is above the acceptable percentage. Maximum effort was applied to create logical link between the items in the questionnaire and the research questions as well as the objectives of the study.

3.9. Procedures of Data Collection

In order to gather the necessary data, a group of respondents were actively involved in the study and different data collection instruments were developed by the researcher based on the review of related literatures. Facilities Management Process, Human Resource management Process, procurement and property office, peace and security office and other important personnel's in one hand wastreated through questionnaire, interview and a group of different stakeholders was treated through focus group discussion. The rationale behind selecting such variety respondents is perhaps to consolidate the reliability of information.

3.10 Data analysis

As stated by Duncan Cramer and Dennis Howitt (2004), descriptive data analysis emphasizes on maximizing the gain from the data by making clearer the process of describing and analyzing the data gathered. After proper editing, the data was coded and entered to the software then it was ready to analysis. For the purpose of achieving the objectives of the study, the collected data was processed and analyzed with descriptive statistics using Statistical Package for Social Studies (SPSS) of 20th version. This technique is selected because it helps to summarize the sample, provides and allows describing the characteristics of the data collected and it helps to thoroughly analyze and interpret the questions one by one in order to reach meaningful results. Throughout the analyzing process, percentages, frequency and mean were employed. In doing so tables were used to present and made easily understandable the findings in order to arrive at certain conclusion.

3.11 Ethical Consideration

The interview was conducted and questionnaires were distributed with full knowledge of the management. Ethical issues in this research concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using secured data for academic purpose only and ensuring that the respondents personality will not exploited.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter deals with the analysis and discussion of the information obtained from the questionnaires and interviews.

4.2. Response Rate

As shown in table 4.1. Below, out of 125 questionnaires distributed to the four sampled campuses, 104 responses were returned. From the total returned responses, 3 of them were incomplete. Thus, only the 101 complete responses are employed in the analysis, which represents the response rate of 80% ($101/125=.808$).

Table 4.1 Response Rate of Respondents

No.	Departments	Sample size	Returned	Completed Response	Incomplete	Response rate
1	Procurement & property administration	21	21	21	-	100
2	Human resource management office	13	13	13	-	100
3	Facility management Office	59	41	39	2	66.1
4	Peace and security	32	29	28	1	87.5
Total		125	104	101	3	80.8

Source: survey data, 2019

4.3. Demographic Characteristics of Respondents

The first part of the questionnaire consists of the demographic information of the participants. This part of the questionnaire requested a limited amount of information related to personal and professional characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in Table 4.2. These variables include age, gender, educational level and current position of respondents.

Table 4.2 Demographic Characteristics of the Respondents

No.	Respondent profile	Choice	Frequency	Percent	Valid Percent	Cumulative Percent
1	Gender	Male	51	50.5	50.5	50.5
		Female	50	49.5	49.5	100.0
		Total	101	100	100	
2	Age	18-30	66	65.3	65.3	65.3
		31-40	28	27.7	27.7	93.1
		41-50	7	6.9	6.9	100
		above 50	-	-	-	-
		Total	101	100.0	100.0	
3	Educational Background	< diploma	-	-	-	-
		Diploma	20	19.8	19.8	19.8
		first degree	81	80.2	80.2	100
		> first degree	-	-	-	-
		Total	101	100.0	100.0	

Source: survey data, 2019

Out of 101 (100%) respondents, 51 (50.5%) were males where as the rest 50 (49.5%) were males. This implies that sex ratio of male and female fairly similar. Regard to the age structure 66 (65.3%) of respondents were the age group of 18-30 years. 28 (27.7%) of respondents were between the age group of 31-40 years. The rest 7 (6.9%) of respondents were aged between 41-50 years. This implies that about 94 (93%) of the respondents are below 41 years of age. Addis Ababa University is said to be relatively filled by youngsters. The Table also demonstrates academic qualification of the respondents. As indicated in the Table, 81 (80.2%) of the total respondents are first degree holder followed by diploma holders 20 (19.8%). This implies that the university has fairly educated employees.

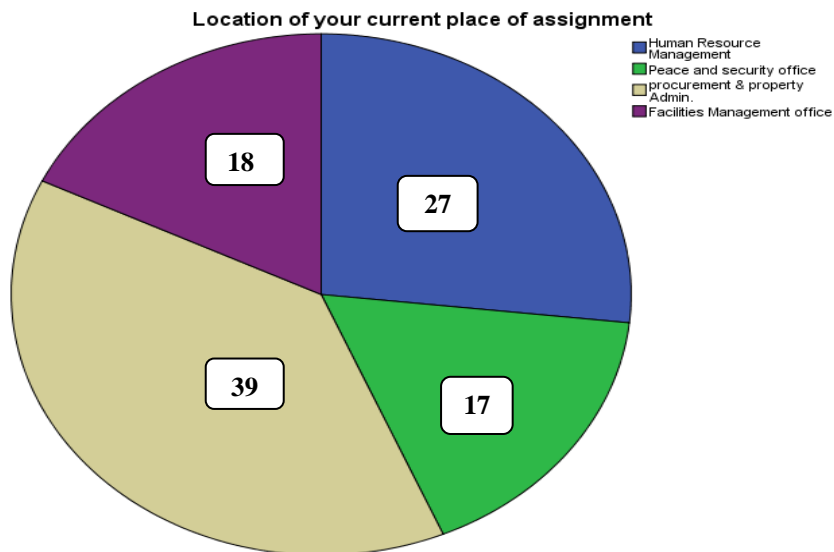


Figure 4.1 current place of assignment of respondents

Generally, respondents' current place of assignment is categorized in to four namely, PPAO, HRMO, FMO and P&SO. As revealed in the figure 4.1 above, respondents under procurement and property constituted about 39(38.6%), of the total respondents. The next highest group is found in human resource which constituted, Facilities Management office, peace and security 27(26.73%), 18(17.82%) and 17(16.83%) of the respondents respectively. This indicates that the respondents fairly represented each department, those have direct relationship with the outsourcing arrangement.

Table 4-3 Summary of Ranks for the reasons to Outsource Non-Core Business Functions

No	Reasons for outsourcing noncore business functions	N=101	Frequency of Response				Strongly agree	Mean
			Strongly disagree	Disagree	Neutral	Agree		
1	To reduce cost	N=101	-	24	7	40	30	3.75
2	To improve service quality and customer satisfaction	N=101	7	13	12	28	41	3.82
3	To access to new skills	N=101	-	17	24	32	28	3.70
4	To focus on core functions	N=101	10	-	10	51	30	3.90
5	To improve flexibility	N=101	7	10	10	49	25	3.74

Source: survey data, 2019

The respondents were asked to, on a scale of 1 to 5; rank the reasons why their company outsources. The responses were analyzed using descriptive statistics and classified into five categories. Table 4.3 above summarizes the findings with regards to the stated reasons as driving forces for outsourcing. From Table 4.3 on average, the respondents agreed that to focus on core functions was a major driver for outsourcing non core business functions in the company with the mean value of 3.90. The respondents also stated that the company uses outsourcing as a strategic tool to improve service quality and customer satisfaction with the mean value of 3.82. According to the respondent, the third main reason to outsource non core business functions of the university was to reduce cost with the mean value of 3.75.

Therefore, the respondents placed focus on core functions at the top of the drivers for outsourcing noncore activities. To improve flexibility and to access to new skills takes the next reasons with a mean of 3.74 & 3.70 respectively to outsource non core business functions of AAU.

Table 4.4 Summary of How Outsourcing Functions Affect Organizational Performance

No.	Item		Frequency and percentage (%) Total					Mean
			Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	Customer satisfaction increased after outsourcing non core business functions of the university	N=101	10	14	15	29	33	3.60
		%	9.9	13.9	14.9	28.7	32.7	
2	The university has able to reduce its operating cost related to non core business functions	N=101	10	27	14	33	17	3.20
		%	9.9	26.7	13.9	32.7	16.8	
3	Outsourcing has reduce coasts such as overheads and other fixed costs	N=143	-	27	39	24	11	3.19
		%	-	26.7	38.6	23.8	10.9	
4	The existing outsourced services helped the university and its customer to feel confident about its quality	N=101	10	4	41	29	17	3.39
		%	9.9	4.0	40.6	28.7	16.8	
5	Outsourcing non core business functions increase competitiveness of the university	N=101	-	17	31	31	22	3.57
		%	-	16.8	30.7	30.7	21.8	
6	Organizational performance increased after outsourcing noncore business	N=101	10	4	33	47	7	3.52
		%	9.9	4.0	32.7	46.5	6.9	

Source: survey data, 2019

According to the data presented on Table 4.4, 61.4% of the respondents agreed and strongly agreed on the issues, Customer satisfaction increased after outsourcing non core business functions of AAU. 23.8% of the respondents were disagreed and strongly disagreed on that outsourcing of non core business functions of the university helped to improve its customer satisfaction. On the other hand, the remaining 14.9% of the respondent were undecided to the raised question. Moreover, the mean score value of 3.6 implied that outsourcing of non core business functions of the university helps to improve service quality and customer satisfaction.

About 49.5% with (32.7% agree and 16.8% strongly agree) of the respondent believes that the university has able to reduce its operating cost related to non core business functions and 36.6% with (26.7% disagree & 9.9% strongly disagree) of the respondent were on disagreement level related to the role of outsourcing non core business functions on reducing operating cost While the remaining 13.9 % of the respondent were neutral whether it has impacted the operating cost. On the other hand costs related to overhead and fixed costs, 34.7% of the respondent agreed and strongly agreed that those costs are reduced. But about, 26.7% of the respondent thought that costs related to overhead and fixed costs are not reduced and the remaining 38.6% of respondents were neutral. The mean score value of 3.19 implies that still the university is unable to reduce the above costs.

About 45.5% with (28.7% agree & 16.8% strongly agree) of the respondents were agreed that the issue of the existing outsourced services helped the university and its customer to feel confident about its quality. While 13.9% specifically, (9.9% strongly disagree & 4% disagree) of the respondents were disagreed that service quality has increased after outsourcing non core business functions and the remaining 40.6 % of the respondent were neutral on this issue.

Generally, 52.5% of the respondents agreed on outsourcing non core business functions increase competitiveness of the university while less part of the respondents (16.8%) were in disagreed with this issue. The Remaining 30.7% was undecided on this issue. The mean score value of 3.57 indicates that outsourcing non core business functions of the university did not increase its competitiveness. Majority of the Respondents were asked if the organizational performance increased after outsourcing the non-core functions. Accordingly, the researcher has found from the study that a mean score of 3.52. This implies that the performance of the university increased after outsource. The percentage result revealed that 46.5% agreed, 32.7% neutral, 9.9% strongly disagreed, 6.9% strongly agree and 4% disagree. Moreover, officials of both the university and the

staffs confirmed that the organizational performance increased after outsourcing the non-core functions.

Table 4.5 Summary of Benefits Gained After Outsourcing Cleaning Service.

No	Item		Frequency and percentage (%) Total					Mean
			Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	Outsourcing cleaning service save time and cost	N=101	16	20	7	21	37	3.43
		%	15.8	19.8	6.9	20.8	36.6	
2	Outsourcing cleaning service allow to focus on core function	N=101	6	0	18	49	28	3.92
		%	5.9	0	17.8	48.5	27.7	
3	Outsourcing cleaning Service reduce budget allocation	N=101	20	20	34	17	10	2.77
		%	19.8	19.8	33.7	16.8	9.9	
4	Outsourcing cleaning service increase flexibility	N=101	10	22	19	36	14	3.22
		%	9.9	21.8	18.8	35.6	13.9	
5	Outsourcing cleaning service improve customer satisfaction	N=101	17	16	3	41	24	3.39
		%	16.8	15.8	3.0	40.6	23.8	
6	Outsourcing cleaning service help to improve organization's performance	N=101	10	16	23	34	18	3.34
		%	9.9	15.8	22.8	33.7	17.8	

Source: survey data, 2019

As indicated in the above Table 4.5 respondents were asked about benefits gained after outsourcing cleaning service of the university. Accordingly, majority of the respondents agreed that the outsourcing cleaning service helped the university to focus on its core business functions, save time & cost, improve customer satisfaction, help to improve organization's performance and increase flexibility. Consequently, mean score of 3.92, 3.43, 3.39, 3.34 and 3.22 and were registered respectively. On the other hand, as indicated in the above Table, respondents replied if cleaning service reduces budget allocation 39.6% were disagreed & strongly disagreed, 26.7 agreed & strongly agreed and 33.7 neutral with the mean score of 2.77. From this, it is possible to understand

that cleaning service provider has been providing the desired quality of cleaning services for the university but the budget allocation of the university is not well planned and considered the philosophy of outsourcings non-core functions which is to bring better working process with minimum cost and budget allocation.

Table 4.6 Summary of Benefits Gained After Outsourcing Security services

No	Item		Frequency and percentage (%) Total					Mean
			Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	Outsourcing security service save time and cost	N=101	10	23	13	22	33	3.45
		%	9.9	22.8	12.9	21.8	32.7	
2	Outsourcing security service allow to focus on core function	N=101	0	6	14	53	28	4.02
		%	-	5.9	13.9	52.5	27.7	
3	Outsourcing security service Reduce risk	N=101	15	14	24	31	17	3.21
		%	14.9	13.9	23.8	30.7	16.8	
4	Outsourcing cleaning service improve customer satisfaction	N=101	4	25	16	35	21	3.44
		%	4.0	24.8	15.8	34.7	20.8	
5	Outsourcing security service help to improve organization's performance	N=101	-	18	23	35	25	3.66
		%	-	17.8	22.8	34.7	24.8	

Source: survey data, 2019

As exhibited in Table 4.6 above respondents were asked about benefits that are achieved by outsourcing security function (guard) of the university. Accordingly, majority of the respondents agreed that the outsourcing strategy of the university helps to focus on its core business functions of the university, improve organization's performance, save time and cost, improve customer satisfaction and helps to reduce risk with a mean score of 4.02, 3.66, 3.45, 3.44 and, 3.21 were registered respectively. From this someone can understand that the university is in a good security level and getting the desired benefit from outsourcing the security function.

As shown in Table 4.7 below to examine the challenges that are faced due to outsourcing the janitorial service of the university also five items were prepared. These are poor quality of janitorial service, has ethical problem, handle materials poorly, misalignment between AAU's requirement and provided staffs and problem of controlling cleaners on working hour. Accordingly, mean score of 2.78, 2.62, 2.96, 2.94 and 2.75 were registered respectively. This implies that respondents neither observed the existence of any challenges nor heard such problems in the university that are associated with outsourcing janitorial functions. (See the Table 4.7 below).

Table 4.7 Summary of Challenges Faced after Outsourcing Cleaning services

No	Item	Frequency and percentage (%) Total					Mean	
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree		
1	Cleaners has poor quality of janitorial service	N=101	23	23	26	11	18	2.78
		%	22.8	22.8	25.7	10.9	17.8	
2	Outsourced cleaning staffs has ethical problem	N=101	24	35	10	19	13	2.62
		%	23.8	34.7	9.9	18.8	12.9	
3	Outsourcing cleaning staffs handle materials poorly	N=101	20	26	11	26	18	2.96
		%	19.8	25.7	10.9	25.7	17.8	
4	Misalignment between AAU's Service requirement and service provider capability	N=101	20	21	18	29	13	2.94
		%	19.8	20.8	17.8	28.7	12.9	
5	There is a problem of controlling cleaning staffs during working hour	N=101	20	33	13	22	13	2.75
		%	19.8	32.7	12.9	21.8	12.9	

Source: survey data, 2019

Table 4.8 Summary of Challenges Faced after Outsourcing Security Services

No	Item	Frequency and percentage (%) Total						Mean
			Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	Theft has been increased after outsourcing security service	N=101	19	36	18	20	8	2.62
		%	18.8	35.6	17.8	19.8	7.9	
2	Outsourcing security service improve customer satisfaction	N=101	4	24	17	44	12	3.36
		%	4.0	23.8	16.8	43.6	11.9	
3	Outsourced security staffs lack Organizational commitment and citizenship	N=101	10	30	28	25	8	2.91
		%	9.9	29.7	27.7	24.8	7.9	
4	Outsourced security staffs has ethical problem	N=101	19	41	22	7	12	2.52
		%	18.8	40.6	21.8	6.9	11.9	
5	Outsourced security staffs handle materials poorly	N=101	25	13	37	11	15	2.78
		%	24.8	12.9	36.6	10.9	14.9	
6	There is problem of controlling security staffs during working hours	N=101	40	22	28	7	4	2.14
		%	39.6	21.8	27.7	6.9	4.0	

Source: survey data, 2019

Table 4.8, represent summary of frequency, percentage and means of respondents view on the problems of outsourcing the above function. Respondents’ mean score of 2.62, 3.36, 2.91, 2.52, 2.78 and 2.14 show that the level of agreement on the existence of the stated challenges. For theft has been increased, customer satisfaction improved, the supplied security staffs lack organizational citizenship and commitment, has ethical problems, handle materials poorly and problem of controlling staffs during working hour were registered respectively. These are not challenges for AAU due to outsourcing its security functions. In general, from the above discussion we can infer that AAU has been receiving a good security service from the service provider. But on the material handling part 36.6% of respondents are neutral.

4.4 Analysis of Interview Questions

The second part of the questioning was centered on the opinions from the directors and team leaders of the four departments of the university.

The aim was to consider opinions apart from employees that management actually sought in outsourcing. Therefore questions on reasons to outsource, benefits after outsource, major challenges faced and how to control quality of the outsourced service & evaluate the performance. They confirmed that focusing on core functions, cost reduction and quality service as prime factors that influenced their choice of an outsourcing practice.

The interview also confirmed that, there are benefits after outsourcing the cleaning and security services which are: -

- ✓ Increased efficiency: - after outsourcing those two activities they bring years of experience in teaching learning practices. Thus, they can do other activities better with their knowledge and understanding of the domain. This leads to an increase in productivity and efficiency in the process thereby contributing to the bottom-line of AAU.
- ✓ Focus on core areas: - as they confirmed AAU benefits from Outsourcing those activities B/C the management is free to lose energy and skill to non-core activities and enable them to focus on building the core once.
- ✓ Access to skilled resources: - they no longer need to invest in recruiting and training expensive resources for the university.

On the other hand they also confirmed that there are some challenges and problems in the university. Problems related to contract administration, Inputs to cleaning service is provided by the outsourcing company, which leads the company to abuse the internal controlling, High absence of employees by the security service provider company, The company do not have stable employees, b/c of the company perform 100 of contract in Ethiopia and Employees work by half day shifts which decreases the trust among them.

There are no evaluating Criteria's for company performance. But they confirmed that janitorial and security services are under two departments which are the security under peace and security director and cleaning service under facility management director. These can give responsibility to both departments to check if there is a gap in the process.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents summary of major findings, conclusion part of the study and recommendations stems or emanates from the research results and review of relevant literature.

5.1. Summary of Major Findings

The purpose of this study aimed at finding the effect of outsourcing noncore business functions on Addis Ababa University's performance. In this regard an attempt has been made to investigate how the performance affected by the key variables which are outsourcing cleaning and security services. The questionnaire was developed in such a way that all this factors were included. Out of the 125 questionnaires that were distributed, 101 fully completed questionnaires were collected which gave 80.8% response rate.

The following are the major findings with regards to the demographic and general perception questions of the outsourcing noncore business functions of the company:

- From the total sample of the respondent 50.5% are male and 48.5% are female
- A majority number of 65.3% are between 18-30 aged
- A majority of respondents 80.2% are first degree holders

In order to get clarity, the researcher has divided the findings below under each of their headlines as put in the questionnaires and summarized it accordingly.

The Main Reasons for Outsourcing Noncore Business Functions of AAU

80% of the respondent confirmed that major driver for outsourcing non core business functions in the company is to focus on core functions with mean score value of 3.9. And also respondents relatively ranked the stated five main reasons to outsource non-core business functions. Accordingly, to improve service quality and customer satisfaction, reduce cost, improve flexibility and to access to new skills with the mean score of 3.82, 3.75, 3.74, and 3.70 which depicted the highest to the lowest reasons for outsourcing of noncore business functions by the university respectively.

Outsourcing noncore business functions on organizational performance in terms of (customer satisfaction, service quality, effectiveness & efficiency).

Majority of perception of respondents on outsourcing noncore business functions on customers' satisfaction revealed that 61.4% of the respondent agreed that customer satisfaction increased after outsourcing non core business functions of the university. Besides to this, 49.5% of the respondents were agreed that outsourcing noncore business functions help to reduce its operating cost related to non core business functions. To the reverses costs related to overheads and fixed costs 38.6% of the respondents were neutral. In addition to this, respondents agreed on organizational performance increase after outsource, increase competitiveness of the university and the existing outsourced service helped the university and its customer to feel confident about its quality with the majority percentage of 53.4%, 52.5% and 45.5% respectively.

Benefits that are gained from Outsourcing Cleaning and Security Services

Results on the successes that are derived from outsourcing cleaning service of the university revealed that outsourcing of such service helped the university to save time and cost, allow focusing on core function, increase flexibility, improving customer satisfaction and increase organizational performance. Accordingly, the percentages of agreed respondents were 57.4%, 76.2%, 49.5, 64.4% and 51.5% respectively. However, 39.6% of respondents were disagreed on whether or not Outsourcing cleaning service reduces budget allocation.

Majority of the respondents (54.5%) have agreed that the university has able to save time and cost by outsourcing its security services. Also 80.2% of the respondents confirmed that outsourcing security services of the university allow focusing on core functions and also majority of respondents agreed that the university reduce its risks, improve customer satisfaction and improve organizational performance with the percentage of 47.5%, 55.5% and 59.5% respectively .

Challenges that are faced from Outsourcing Cleaning and Security Services

Result on the challenges that derived from outsourcing the cleaning functions of the university, revealed that the existence of problems; 45.6%, 58.5%, 45.5% and 52.5% of the respondents disagreed that cleaners has poor quality of janitorial service, staffs has ethical problem, handle materials poorly and unable to control them during working hours respectively. Besides to this 41.6% of respondents agreed that there is a misalignment between university and the service

provider. From this we can infer that there are fewer challenges regarding the above issues raised due to outsourcing cleaning services except the misalignment between the contracting parties and inputs to clean the university are provided by the outsourcing company, which give an opportunity to abuse the budget easily.

About 54.4% of the respondents disagreed that due to outsourcing the security function of the university theft of property has been increased. 39.6% of the respondents disagreed that outsourced security staffs lack organizational commitment and citizenship. Similarly, 59.4%, 37.7% and 61.4 of them disagreed that outsourced security staffs has ethical problem, handling materials poorly and problem on controlling the staffs during working hours respectively. On the other hand 55.5% of respondents agreed that the outsourced security service improve customer satisfaction.

Generally Regarding, the challenges that are associated with outsourcing the cleaning and security service of the university, respondents confirmed that there are some challenges: like lack of controlling of staffs during working hour and their absence in security service, contract management problems, problems related to row material to the cleaning service, staffs turnover rate of the outsourcing company, misalignment between contracting parties and the university did not set evaluation criteria to measure the performance of service provider during the interview part.

5.2. Conclusions

Based on the data presented and analyzed in the previous chapter of the study, the following conclusions are drawn by the researcher with respect to the outsourcing practice of the security and cleaning functions of the university. Most of the time outsourcing strategy is linked with the corporate strategy of an organization. In the same way, Addis Ababa University engaged in the outsourcing arrangements to focus on its core functions. Following its strategic directions, the university has already outsourced some of its non-core business functions. Using these Conclusions are drawn as follows:

- company hires the services of the external party due to several reasons such as reduction in cost, trained employees, shortage of staff or equipments, better technology, best service quality, able to learn new things, contractors have better reputes, to develop better relationship with other organizations, provides flexibility as organizations focus on other important functions etc (Ashrefa, et al, 2010). The main reasons as driving forces for

outsourcing strategy in Addis Ababa University is to focus on core functions. The data also stated that the company uses outsourcing as a strategic tool to improve service quality and customer satisfaction. The other main reason to outsource non core business functions of the university was to reduce cost. To improve flexibility and access to new skills takes the next reasons to outsource non core business functions of the university.

- In different studies which mentioned Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission (Choi,k 2008). Outsourcing helped the university to focus on core functions which is the teaching learning process. That is the base for the organization to achieve its performance, avoid major investment in HR, and reduce operating cost.
- Analysis of the open ended questions and majority of the participants agreed that more benefits are achieved as a result of contracting out cleaning and security service to an external vendor. Benefits like focus on core function, reduce time and cost, reduce risk and improve customer satisfaction etc. so as a whole the organization performance increased after outsourcing the noncore activities. Except few of the respondents identified the budget allocation did not reduce.
- Regarding the challenges Majority of respondents confirmed that there is fairly good implementation of cleaning and security services and no big challenges reported. But there are still some works to be done in order to be more effective as compared to good practices. For example, Respondents have also indicated relatively there are problems of controlling of staffs during working hour and their absence, contract management problems, problems related to raw material to the cleaning service, turnover rate of the outsourcing company and the university did not set evaluation criteria to measure the performance of service provider during interview part and the misalignment between contracting parties. In support of this Chuanxu Wang and Amelia C. Regan (2002) mentioned possibility of inefficient management of outsourcing activities as challenges faced by many organization which leads to increased operational cost.
- Finally, based on the examinations of mean differences, still the university is unable to plan the budget allocation; the budgets are not located in cost effective manner, resolving the misalignment between the university requirement and the capability of service provider and controlling of staffs during working hour by making the work environment comfortable and establish clear and strong procedure. As stated by Thoms (2004) a well defined and constructed SLA will aptly set expectations for both sides of an outsourcing relationship while providing targets for accurately measuring performance to those

objectives. Using this development of Service Level agreement (SLA) is the first cornerstone activity that would have been accomplished before handing over services to external service providers because of the obvious reason that it is through these SLSs that the university would spell-out its requirements and subsequently monitor and measure the performance of service providers.

5.3. Recommendations

On the basis of the findings and conclusions reached, the following recommendations are forwarded in order to improve the outsourcing efforts of the university:

1. The university should Allocating the right budget for the required service is critical; it helps to facilitate the identification of activities that can be best performed by the service providers. Set a strategic plan for the implementation of the noncore function and also helps for the creation of awareness regarding the budget distribution to the campuses of the university. Therefore it is better to invite all the concerned parties when allocating the budget to outsourced activities and locate the right budget for the right purpose.
2. Addis Ababa University should set for service provider an evaluation criteria or service level agreement for all outsourced non-core business functions and all the contracts should have an exit valve. Because Setting well formulated SLA in which a company helps to evaluate the service of a vendor and good service can be easily differentiated from bad service, which initiates the service provider a fair opportunity to satisfy its client. Service level agreement clearly defined and communicated to the service provider at the initial stage of their agreement; any troubles are resolved according to the agreed standards. Therefore,
3. The university should establish a formal contract administrator to follow up on the performance of the outsourcing company.
4. AAU should control the row materials (inventories) used for cleaning service Using by directly receiving the items and give them back by registering the item.
5. The service provider needs to control the staffs during working hour using different controlling mechanisms such as giving rewards to staffs that are working properly and build trust among employees. But university also must establish formal groups in each braches who control and report the service provided by the outsourced company.

Therefore the university harvest the fruit of the successful outsourcing strategy and to overcome the mentioned challenges and should conduct due diligence on the service provider's related to budget allocation, meet the work plan requirement with the service provider and confirm all the necessary services are delivered on time by the right work force. As indicated in the data presentation, the university should work hard in order to reverse the adverse impact of outsourcing strategy that affects company's performance in delivering quality services, increasing customers' satisfaction and improving competitiveness & efficiency.

5.4. Suggestion

It is important to bear in mind factors such as the researcher's lack of prior experience in undertaking systemized research and our society's poor attitude in filling out questionnaire with due care and returning it on time that could have some impact on the study's result. Hence, the researcher suggest that other scholars also to work in the area of outsourcing which is the demanding issue and interesting part of logistics and supply chain that is deeply rooted in well developed society.

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Appendix 1

Questionnaire

Addis Ababa University

This questionnaire is prepared only for the aim of assessing the outsourcing activity in AAU. Your honest response helps the researchers to find out the real and critical problems in those. So, we need you to give us your true response for the questions that we are going to ask you. The study does not have any other purpose rather than assessing the current outsourcing activity and help the concerning body to set the appropriate solution for the problems to be found. If you have any enquiry please don't hesitate to contact the researcher on phone number: 0911992542 and Emile address solyad.yt@gmail.com

Dear respondents

- ✓ You don't need to write your name on the question paper
- ✓ Please answer all questions
- ✓ Please do not discuss with other respondents to give your answer
- ✓ Put (✓) sign in the box provided to give your answer

Part I: Respondent Demography

1. Gender: 1) Male 2) Female

2. Age: 1) 18-30 years 2) 31-40 years 3) 41-50 years

4) 51 years and above

3. Educational background:

1) < Diploma 2) Diploma 3) First Degree 4) > first degree

4. Location of your current place of assignment?

1) Human Resource Management 3) procurement & property Admin.

2) Peace and security office 4) Facilities Management office

Part II

Questions designed to collect information about the effect of outsourcing on institution performance in the case of Addis Ababa University. Indicate 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

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)

7. Questions related to the main reason for outsourcing noncore business function of the university

what is the main reason to outsource non-core business functions of the university?

No.	Item	Strongly Agree(5)	Agree(4)	Neutral(3)	Disagree(2)	Strongly Disagree(1)
1	To reduce cost					
2	To improve service quality and customer satisfaction					
3	To access to new skills					
4	To focus on core functions					
5	To improve flexibility					

8. Questions related to effects of outsourcing noncore functions on AAU performance

What are the effects of outsourcing non-core business functions on AAU performance?

No.	Justification for making the decision	Strongly agree(5)	Agree(4)	Neutral(3)	Disagree(2)	Strongly Disagree(1)
1	Our customers are increasingly satisfied with our service					
2	The AAU has able to reduce its operating costs related to noncore business function					
3	Outsourcing has reduced costs such as overheads and other fixed costs in my company					
4	The existing outsourced services helped the AAU and its customer to feel confident about its quality					

5	it has had a negative outcome in AAU					
6	Increase competitiveness of the company					
7	Organizational performance increased after outsourcing noncore business functions					

9. Questions related to what key benefits or competitive advantages are derived and challenges faced after outsourcing the services.

1. Please rate the table to evaluate benefits gained after outsourcing of cleaning /janitorial service

No	Justification for making the decision	Strongly disagree (5)	Agree (4)	neutral (3)	Disagree (2)	Strongly disagree(1)
1	Outsourcing cleaning service save time and cost					
2	Outsourcing cleaning service allow to focus on core business function					
3	Outsourcing cleaning service reduce budget allocation					
4	Outsourcing cleaning service increase flexibility					
5	Outsourcing cleaning service improves customer's satisfaction					
6	Outsourcing cleaning service improve organization's performance					

2. Please rate the table to evaluate benefits gained after outsourcing of security service

No.	Justification for making the decision	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	Outsourcing security service save time and cost					
2	Outsourcing security service allow to focus on core business function					
3	Outsourcing security Service reduce risk					
4	Outsourcing security Service improves customer's satisfaction					
6	Outsourcing security service improve organization's performance					

3. Please rate the table to evaluate challenges faced after outsourcing of cleaning Service

No.	Justification for making the decision	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	Outsourced cleaning staffs has Poor quality of janitorial service					
2	Outsourced cleaning staffs has ethical problems					
3	Outsourced cleaning staffs handle materials poorly					
4	Misalignment between AAU's service requirement and service providers capability					
5	There is problem of controlling cleaning staffs during working hours					

4. Please rate the table to evaluate challenges faced after outsourcing of Security Service

No.	Justification for making the decision	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	Theft has been increased after outsourcing security Service					
2	Outsourcing security Service improves customer's satisfaction					
3	Outsourced security staffs lack organizational commitment and citizenship					
4	Outsourced security staffs has ethical problems					
5	Outsourced security staffs handle materials poorly					
6	There are problem of controlling security staffs during working hours					

Part III

If you have additional comments, please write it.

: _____

Appendix-II

Interview Questions to be administered with the university facility management director and peace and security director

This interview will conduct to gather data for MA-LSCM Thesis entitled “Effect of Outsourcing on Institution Performance In The Case Of AAU”.

1. What are the drivers/reasons that encourage your organization to outsource its noncore business functions?
2. What benefits the university has achieved by outsourcing these non core functions?
3. What are the major challenges or problems facing by AAU in relation to outsourcing?
4. How your organization monitors or controls the quality of the outsourced services and evaluates the performance of service provider?
5. Would you like to add anything related to the topic that I didn't cover in my questions?