



**ADDIS ABABA UNIVERSITY**

**SCHOOL OF COMMERCE**

**DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT**

**ASSESSMENT OF OPPORTUNITIES AND CHALLENGES OF  
OUTSOURCING PRACTICE IN CASE OF BUNNA BANK**

**BY: NATNAEL MOLLA**

**ADVISOR: DR. TENKIR SEIFU**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY SCHOOL OF  
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**ADDIS ABABA, ETHIOPIA**

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# **DECLARATION**

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This is certify that the thesis prepared by **Natnael Molla**, entitled; Assessment of Opportunities and Challenges of Outsourcing Practice In Case Of Bunna Bank’’ in focus and submitted in partial fulfillment of the requirement for the degree of master of Arts in Logistics and Supply Chain Management with regulations of the university and meets the accepted standards with respect to originality and quality.

Name: **Natnael Molla Gelaw**

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## **LIST OF ABRVATIONS AND ACRONYMS**

ATM	Automated Teller Machines
BB	Buna Bank
PIN	Personal Identification Number
POS	Point-of-Sale Transfer Terminals
SLA	Service Level Agreements
TCT	Transaction cost theory
US	United State
USA	United State of America

## ABSTRACT

*The emergence of globalization has made outsourcing to become one of the widely embraced business strategies for delivering outstanding services to consumers in banking sector. The study aims to assess the opportunities and challenges of outsourcing in Buna Bank. The research objectives were to explore the opportunities obtained as a result of outsourcing, to examine the challenges encountered in carrying out outsourcing and explore the impacts of outsourcing. The research applied descriptive research design and both qualitative and quantitative research approach and data was collected from employees of the bank through simple random sampling and uses descriptive data analysis methods. The findings show that the Bank outsources to access special expertise, reduce overhead and operational costs; spread commercial risk and get adequate time to concentrate on their core activities. The bank has also faced with varied challenges from outsourcing such as loss of control, unethical employee behavior, and conflict of interest among outsourced and permanent employees, low employee belongingness, low quality of service provided, higher costs, communication and coordination difficulty, continuous increase in prices. Thus, based on the findings of the study, the research recommended that the bank has to properly identify outsourced services, design frequent monitoring scheme, resolve conflict of interest and identify properly the service provider in order to gain the demanded benefits out of outsourcing.*

**Keywords:** Outsourcing, Challenges, Opportunities, Bank Service, Buna bank

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Outsourcing is described as work performed for a company by people who are not full-time employees of the company. Outsourcing has become quite sophisticated in today's world, and businesses use outsourcing suppliers for a variety of reasons (Seth, 2011). Many businesses outsource one or more of their business functions to third-party providers.

Outsourcing is also defined by Mensah, Osei-Owusu, and Nartey (2013) as a system of obtaining commercial services from outside the country that were formerly provided internally or within the country. Organizations are progressively hiring services from foreign countries as well as local organizations, such as legal services, music recording, book transcriptions, information technology, security, and teaching. Companies in rich countries typically outsource services to developing or developing countries.

As a result, outsourcing allows a company to have access to expertise, knowledge, and skills that are not available within its walls. Outsourcing initiatives have progressed from short-term cost-cutting programs to executive-level business plans that enable organizations to grow and maintain revenues and profits in the global marketplace (John, Clyde, and Bonifazi, 2006). According to Tayauova (2012), outsourcing is one of the most effective activities in modern business because many organizations attempt to employ all scientific, technological, and scientific breakthroughs to issue qualified and competitive products that will satisfy consumers.

Outsourcing has been used everywhere in the world, according to Weinstein (2005). Bank of America, Best Buy, Delta Airlines, Goodyear, IBM, Marriott, Motorola, PepsiCo, Procter & Gamble, and Sun Microsystems are all outsourcing some of their organizations' functions in the United States, and as a result, the federal and state governments in the United States spend billions of dollars each year on outsourcing.

Outsourcing began in the United States, the birthplace of management innovation, from which its more advanced versions spread to Poland, which has experienced rapid growth during the 1990s. Year after year, this solution has grown in popularity, and it is increasingly recognized by business leaders in all sectors of the economy. Its popularity stems from a growing knowledge

among Polish entrepreneurs who, as multinational businessmen, are looking for ways to run their operations more efficiently (Ayienda and Willy, 2015).

Outsourcing was initially mentioned around the turn of the 1970s and 1980s, but it gained popularity in the first 90 years of the twentieth century, particularly in Poland, which had a centrally planned economy until 1990. Surprisingly, unlike many other management tools popular in the West, outsourcing grew in popularity in Poland and the West at the same time. This is due to the fact that outsourcing has only been employed in practice for a short time (Kamierczyk and Macholak, 2014).

When huge firms were underperforming in the 1970s, outsourcing grew in popularity. In fact, the 1980s saw a shift in company strategy thinking as a result of a focus on fewer operations. These shifts compelled business executives to reconsider vertical integration and self-sufficiency. They divested non-core and non-critical components and services in favor of the core business, and they got more de-integrated by outsourcing their non-core and non-critical component and service requirements. By the 1990s, the agenda had been determined, with a growing assumption that pursuing fundamental methods would result in swift results. Many businesses began re-engineering their processes, essentially looking for new methods to organize the various aspects of their operations. Such fresh starts prompted a rethinking and radical redesign of business processes in order to achieve significant improvements in key performance indicators such as cost, quality, service, and speed (Gamble, 1995 cited at Betelhem, 2017).

Most commercial banks in Nigeria turn to outsourcing in order to meet their corporate objectives. However, outsourcing decisions are made without considering the essential criteria that influence outsourcing services, which can make or break a bank's ability to survive in a tough competitive climate (Mistura and Oluyemisi, 2019).

Outsourcing has emerged as the most effective technique for businesses wanting to stay competitive in today's market. Its concept and practice are still in their infancy in Ethiopia, but a few years ago, some Ethiopian organizations tried to outsource some of their non-core functions, and the commercial bank of Ethiopia is one of them (Betelhem, 2017); among government banks, the commercial bank of Ethiopia considered outsourcing twelve years ago (since 2010) to reduce day-to-day administrative burdens and improve service quality.

Bunna Bank, on the other hand, is one of the leading private banks that employs the outsourcing service to gain from the services. Bunna Bank is now aggressively developing its branch network, with over 350 locations. It is also diversifying its services from traditional banking to core banking, internet banking, mobile banking, and other services. Despite these diversifications and specialties, the bank outsources certain of its non-clerical duties to third parties, such as security and cleaning, as well as gardening services. The study's goal was to analyze the obstacles and potential of outsourcing processes in Bunna bank selected districts based on this rationale.

## **1.2 Statement of the Problem**

Outsourcing is becoming more popular as a way to cut expenses while also attaining strategic goals. Its potential impact can be seen in a variety of business activities, including information technology (application development, programming, and coding), specific operations (aspects of finance and accounting, back-office activities and processing, and administration), and contract functions (call centers) (Basel Committee on Banking Supervision, 2005).

According to studies, when organizations outsource, they look for services that provide competitive advantages in areas such as accounting, customer service, security, and financial services, among others (Qian, Aisaata and Miao, 2019).

However, coordinating and managing outsourced business activities with internal business processes, as well as integrating information between them, is one of the obstacles. Companies that undervalue the role of change management and governance in outsourcing are likely to fail. Outsourcing agreements might fail to deliver promised benefits due to bad planning and implementation, not because the aims were poorly designed (Kioko, 2017).

Outsourcing is a critical function in a company because it has a direct impact on the company's operations. Except for some non-core operations such as security and housekeeping services, Ethiopians rarely use outsourcing. Bunna Bank has been providing outsourced services for more than 6 years. Nevertheless, based on personal interviews and observations, the system has had a variety of issues with the level of service it requires. As a result, the bank's services fell short of expectations, and most bank executives aren't focused on the bank's core activities because there are still issues to resolve. Following the discovery of difficulties at Bunna Bank, steps have been

taken to rectify the situation by bringing in a reliable and experienced partner. This opens up options such as lower operational expenses, easier access to talent, and more, allowing the bank to concentrate on its core banking activities. However, the plans have significant downsides, prompting the researcher to visit Bunna Bank, and most outsourcing investigations are conducted at government banks.

The challenges and prospects of outsourcing practice in the Commercial Bank of Ethiopia by Betelhem (2017); the perception of bankers towards the challenges and opportunities of outsourcing practices by Robel (2013); and factors influencing IT/IS Outsourcing at the National Bank of Ethiopia by Selamawit (2016) are some of the studies on outsourcing in Ethiopian banks. However, according to the researcher's own evaluation, no official research on the problems and opportunities of outsourcing has been conducted at private banks in Ethiopia. As a result, there is no official study that has studied the opportunities and constraints of outsourcing, based on the researcher's expertise and review to date. Bunna Bank is also actively expanding around the country while outsourcing some of its non-clerical functions like security and janitorial.

As a result of these circumstances, the researcher decided to conduct a study with the goal of evaluating the opportunities and challenges Bunna Bank faced in outsourcing non-core functions in the selected regions.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective of the Study**

The general objective of this paper was examining the challenges and opportunities of outsourcing practice in case of Bunna Bank.

#### **1.3.2 Specific Objectives of the Study**

The study focused on the following specific objectives in order to accomplish the overall goal:

- 1) To explore the opportunities obtained as a result of outsourcing
- 2) To examine the challenges encountered in carrying out outsourcing at the study bank
- 3) To explore the impacts of outsourcing at Bunna bank

## **1.4 Research Questions**

This research has been carried out to assess the major challenges and opportunities of outsourcing practice in Bunna Bank. Thus, this research would try to answer the following research questions:

- 1) What are the opportunities the bank gets from outsourcing?
- 2) What are the challenges encountered in carrying out outsourcing?
- 3) What are the impacts of outsourcing at Buna bank?

## **1.5 Significance of the Study**

Because outsourcing is a relatively new practice in Ethiopia, many firms, particularly in the banking industry, have yet to identify the benefits and challenges associated with it. Furthermore, there has been no systematic research conducted to determine the country's outsourcing potential. As a result, the researcher feels that this study would be very useful in raising awareness about the difficulties and opportunities that it faces, particularly for Bunna Bank in terms of recognizing the potential and devising procedures to address the challenges. Furthermore, it could be important for society, business people who want to get into outsourcing and need to outsource some of their activities, and scholars. Individuals, banks, and other institutional investors would benefit from the research when they make decisions about the prospective implications of outsourcing activities. Furthermore, this study could act as a springboard for academics and scholars interested in researching outsourcing in Ethiopian business. The researcher also hopes that it will serve as a resource for other student researchers who are working on similar projects. Moreover, it can be considered as a prerequisite for the completion of a Master of art in logistics and supply chain management

## **1.6 Scope/Delimitation of the Study**

**Thematic scope of the study:** the study thematically delimited on assessment of opportunities and challenges of outsourcing and the study covered the outsourcing department staffs and user departments.

**Spatial scope of the study:** The organs of Bunna Bank were the subject of this research. at selected districts located in Addis Ababa and sampled branches located in East which is found around Kebena , South which is found around Mekanisa, and West which is found around Abnet.

**Time scope of the study:** for the study, the required numeric data which can be significant for the study contained from 2020 and onwards, while the other year's data was not the concern of the study.

### **1.7 Limitation of the Study**

The study was limited to city branches to make data collection more manageable and due to time constraints, despite the fact that there are more than 350 branches throughout the country and the outsourced services assessed at Eastern, Southern, and Western. The other limitation of the study was some respondents were reluctant to provide the needed information due to confidentiality issues, hence compromising the access of gathering primary data, which affects the real output of the study. The other limitation of the study was the constraint of budget and time.

### **1.8 Organization the Study**

This research is organized into five chapters: chapter one contains the introduction parts, which deals with the background of the study, research problems, objectives of the study, research questions answered, scope and delimitation of the study, limitation of the study definition of terms, and organization of the study. The second chapter contained the literature review, under which the theoretical and conceptual framework of the study was discussed. Chapter three consisted of research methodologies. Chapter four has dealt with the research results, discussion, and interpretation. Finally, chapter five talked-about to the conclusion and recommendation.

## **CHAPTER TWO: REVIEW OF LITERATURE**

### **2.1 Introduction**

This chapter provides an evaluation of different theories, review of empirical studies, gaps seen from the previous studies and the overall conceptual frameworks can be described as follows.

### **2.2 Theoretical Literature Review**

#### **2.2.1 Concepts of Outsourcing**

Outsourcing is derived from the term "outside resourcing" used in the United States.”, means to get resources from the outside. The term was later used in the economic terminology to indicate the use of external sources to develop the business, which typically were using their internal resources (Troacă and Bodislav, 2012).

Outsourcing is the strategic utilization of external resources to execute tasks that would otherwise be handled by internal personnel. It's a business model in which a company outsources important operations to specialized and efficient service providers who become valuable business partners (Rob, 2006).

Outsourcing is defined as a strategic decision that entails the external contracting of determined non-strategic activities or business processes required for the manufacture of goods or the supply of services through agreements or contracts with higher-capability enterprises to carry out such activities or business processes in order to gain a competitive advantage. It is the transfer of one or more internal activities of an organization to an external vendor (Espino-Rodriquez et al., 2006).

#### **2.2.2 Theories Related to Outsourcing**

Around outsourcing practices, theories developed lays in many different categories; Perunović & Pedersen, (2007) seen outsourcing under three approaches these includes; Resource-Based View, Core Competency Approach, and Transaction Cost Theory. Each theory can be described as:-

### ➤ **Resource-Based View**

Resource based view is based on the notion that an institution lacking in valuable and well-organized resources and competencies requires the assistance of an external supplier to help the focus organization overcome its inadequacies. This approach sees a company as a collection of assets and resources that, when used in unique ways, can generate a competitive advantage. How an organization's capabilities evolve and affect its competitive position and performance is a fundamental concern of the resource-based. According to this theory, functions that are not critical to core competence can be outsourced (Gilley et al, 2004).

In addition, this sort of outsourcing is based on the notion that an entity lacking in valuable and organized resources and competencies requires the assistance of an external provider to help the focus organization overcome its limitations. As a result, this sort of theory is most commonly applied during the planning phase, where it aids in the definition of the decision-making framework as well as the selection of the suitable vendor (Perunovi & Pedersen, 2007).

On the contrary, proponents of this theory believe that disparities in performance and the sustainability of a competitive advantage are explained by heterogeneity in an organization's knowledge-based resources and skills. As a result, the ability of a business to invest in building a capability and maintaining a superior performance position in the capability in comparison to competitors influences the outsourcing decision

### ➤ **Core Competency Approach**

The core competence strategy is built on the firm's resources and competencies that will provide a competitive advantage to the organization. The basic idea is that the theory should be retained in-house, but the organization's other activities that aren't regarded fundamental or critical to its goal or function should be outsourced. A company's resources are described as any production components that the company has access to, and they are divided into five categories: financial, physical, human, technological, and reputation. The first two are the firm's tangible resources, which are easier to analyze and identify, while the others are intangible resources, which are assets that have the potential to provide a competitive edge. The resources and capabilities are therefore complementary in order to sustain competitive advantage (Perunović & Pedersen, 2007).

In order to maintain a sustainable competitive advantage, Rodríguez & Robaina, (2006) described, Organizational competency must respond to external environment dynamics by allowing an organization to preserve its ability to produce value in business processes. As a result, one of the most critical aspects influencing the success of an outsourcing contract is thought to be vendor competency.

➤ **Transaction Cost Theory**

The effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers, according to Zack & Singh, (2010). Any organization's goal is to cut costs and achieve cost efficiency.

Despite for the economic benefits, outsourcing also adds additional costs. Transaction cost theory (TCT) is one of the most frequently referred theories that analyze the added costs of outsourcing. First of all, the time and effort putting in finding the most suitable and trustworthy outsourcer are the start of the added costs. With any outsourced service, the expense of selecting a service provider can cost from 0.2 percent to 2 percent in addition to the annual cost of the deal (Overby 2003).

When the outsourcer is selected, additional time is required to communicate and negotiate with the service provider. The transaction cost theory is applicable in risk management as well because it deals with asset specificity, overall cost advantage, the threat of opportunistic vendor behavior, and the complexity of the transaction (Bahli and Rivard, 2003).

In addition some other authors, adds the fourth theory of outsourcing which is agency theory which can be illustrated as

➤ **Agency Theory**

An agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent; if both parties to the relationship are utility maximizes, there is a good reason to believe that the agent will not always act in the best

interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring some cost. In the case of IT outsourcing, each party in the relationship has their own profit motive and interest, their goals are not congruent according to agency theory. The principal cannot monitor the actions of the agent perfectly and without cost; the difference between the principal and agent can have many sources and in any case the principal tries to control the agent in such a way as to maximize his own benefits. The agent on the other hand is assumed to be driven by self-interest as well. Here a conflict can clearly be observed (Jensen and Meckling, 1976).

### **2.2.3 Types of Outsourcing**

Outsourcing is categorized into partial and complete outsourcing categories based on resource efficiency and risk and responsibility reallocation. Full outsourcing refers to the delegation of a separate function to an outsourcing company and entrusting it with full responsibility for the function's performance. Partial or selective outsourcing refers to the delegation of certain functions or business processes to an outsourcer while a set of mutually related functions are performed by the company itself (Doyle and Tapper 2001 cited at Tayauova, 2012).

#### **➤ Selective and full outsourcing**

Depending on the type of human resources and the type of job function, outsourcing can be divided into two groups. The first sort of outsourcing is selective outsourcing, which is defined as a tactical decision to outsource undesired operations within a company. The second sort of outsourcing is known as strategic-shift outsourcing, and it focuses on bringing in highly sought-after specialists who are in short supply (Workalemahu, 2015).

Furthermore, selective outsourcing allows service provider companies to cut costs while allowing the institution to focus on other things, whereas strategic-shift outsourcing achieves the same goals as selective outsourcing but also aims to build a mutually beneficial relationship due to the size of the contract agreement and its implications for both parties. Outsourcing helps a company to focus on its core goal rather than managing an auxiliary service that may compete with private sector alternatives and fail to deliver a significant return on investment (Bartem and Sherry, 2001).

### ➤ **Tactical and strategic outsourcing**

Institutions employ tactical outsourcing to handle specific difficulties they are facing, such as a lack of financial resources to make capital investments, insufficient in-house managerial skills, or a desire to shrink. Tactical outsourcing is a type of classic outsourcing that is based on a cost comparison and a buy-or-sell decision. It has yielded tangible results in the form of increased cost savings, reduced future investment requirements, and the resolution of workforce difficulties. It also entails carrying out a company process in accordance with established procedures (Workalemahu, 2015).

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 standard strategy used by large mature organizations to handle high-volume repetitive procedures, such as payroll transactions, human resource management, and procurement. Strategic outsourcing is employed as part of the process of reinventing the organization, allowing management to refocus on key business responsibilities. Because the customer works with a smaller number of best-in-class integrated service providers, strategic outsourcing arrangements create long-term value.

### ➤ **Transformational outsourcing**

The term "transformational outsourcing" refers to the process of redefining a firm. It enables an institution to maintain its leading position, develop a long-term competitive advantage, and generate maximum value. Good governance, maturity of business process expertise, and properly prepared and monitored service level agreements are some of the concerns addressed by transformational outsourcing (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 (Linder, 2004).

## 2.2.4 Benefits of Outsourcing

Wanjohi (2012) observed that the key benefit of outsourcing security services in Kenya was that the firms received the best quality of the security services, which enhanced better performance in the firms. Further, the author revealed that although outsourcing security services was of benefit in the firms, there were some risks involved.

Similarly, a survey conducted by European Central Bank in 2004 reveals that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility (Barako and Gatere, 2008).

The rationale for outsourcing generates the advantage of outsourcing. Due to this most of the reasons for outsourcing are also the benefit of outsourcing. Domberger (1998 cited at Abebe, 2015) categorized the benefit of outsourcing in to specialization, flexibility, cost saving and market discipline. In addition cost reduction, gain access resources unavailable internally and flexibility is considered as the major benefits of outsourcing accordingly.

## 2.2.5 The Reasons for Outsourcing

Companies and institutions outsource their services for a variety of reasons, including cost savings, more flexibility, access to new technology, risk transfer to the vendor, and a lack of knowledge, according to the literature. Each can be depicted as follows:

**Cost Reduction:** an aspiration to save indirect costs drive outsourcing since it allows for fewer employees, which necessitates less infrastructure and support systems, resulting in a more efficient organization. A benefits analysis has been completed, and it has been determined that outsourcing rather than continuing to operate a given function is the most cost-effective option for making profits in business.. A desire to save indirect costs may also drive outsourcing (Fontes, 2000); Kremoc, Rom and Tukul, (2006) also depicts, outsourcing allows having fewer

employees that requires less infrastructure and support systems which may result in a more efficient organization.

Similarly, the supplier can save money by consolidating the work of multiple enterprises in one place and buying in bulk. So, the company can reduce its cost indirectly by transferring its function to this type of suppliers (Brown and Wilson, 2005).

**Focus on Core Competence:** A company's survival is dependent on a small number of functions. 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). As a result, successful outsourcing allows the company to focus its internal resources on higher-priority tasks. More recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility thus, outsourcing not only involves the transfer of work, but also the transfer of decision rights (Elmuti and Kathawala, 2000).

The company would keep only those core functions in house as long as it can do better than other supplier, Brown and Wilson (2005) indicates, it 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.

**Improve flexibility:** Maintaining the level of equipment and personnel required to cover peak loads might result in underutilized resources during off-peak hours. Organizations, on the other hand, may only be able to keep resources at a level just sufficient to satisfy typical demand, resulting in poor customer service during peak seasons. In such situation, outsourcing of functions that are subject to peaks and low economic activities in usage can provide organization with the flexibility to respond rapidly to changing demands (Choi, 2008).

**Access to skills:** An organization may suffer a scarcity of trained and experienced employees, and existing employees may not always have the abilities needed to keep up with quickly changing technology and change. When a company considers offering new services, outsourcing can help with the development of the skills and resources needed to respond to these new initiatives. In some cases, Choi, (2008) shows, outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. Furthermore, firms gain from having their employees collaborate with the service provider's experts.

**Improving service quality:** Functions noncore for the outsourcer is core for the supplier and it focus on running the process efficiently. Since it is a core activity for the supplier, it would make every effort to bring improvements in the outsourced process and deliver quality standard service than the company itself (Aran and Patel, 2005).

Thus, from the reviews of literature and the views of varied authors, the main reasons for outsourcing of some selected services can be due to the aim for reduce costs, focus on core competence, enhance flexibility, access to new technology, transfer of risk to vendor and lack of expertise and other similar initiatives trigger an organization to outsource selected services to various agency and licensed company.

### **2.2.6 Challenges of Outsourcing**

Regardless of the benefits, outsourcing services to an external organ might present obstacles for a bank or institution, and the primary challenges can be linked with outsourcing or contracting out a business, according to different writers' perspectives. Stephenson, (2007) describes some of these challenges such as lack of proper planning; failure to conduct outsourcing exercise; loss of control, poor supplier selection; lack of understanding the core departments from none-core; high cost; quality problems and chance to nurture in-house talent is lost.

Githae, Theuri & Kaguta, (2018) also indicated that, the most prevalent challenges of outsourcing among commercial banks in Kenya include; resistance to change, inability to develop clear outsourcing objectives, lack of proper communication to stakeholders, lack of top management support and lack of supporting structures.

According to Temitope (2015) study the challenges of outsourcing were financial risk, poor planning for the outsourced services, increase in the cost of outsourcing provisions and administration, failure to adhere to quality standards, dilution of control, poor structure to manage the outsourcing function effectively and increase in banks' liabilities to third parties.

One of the expectations of outsourcing services is that the focal company expects to receive better services than that offered by its staff. Adler, (2013) states the challenge therefore is the ability to choose an outsourcer that can provide the expected service. The outsourcer must be chosen such that it would not have any negative influence on the goods and services provided by

the company and if care is not taken in the selection of the outsourcer the consequence might be so grave that it can affect the position of the focal company.

Furthermore, shifting a large number of functions to outsourcing might increase a company's costs. It is important to notice that enormous usage of outsourcing can lead the company to be fully dependent on outside outsourcing vendors. Several challenges are likely to occur when an institution introduce outsourcing processes (Ababu, 2015), and some of the pitfalls Wang et al. (2013) in outsourcing and stipulated that some outsourcing providers are found to lack knowledge, some providers are non-responsive, and the others have low performance standards. They therefore indicated that it will not be any organization that will see success if it decides to outsource some of its activities.

Failure to conduct an outsourcing exercise, loss of control, poor supplier selection, a lack of understanding of core versus non-core departments, financial risk, poor planning for outsourced services, an increase in the cost of outsourcing provisions, and ad hoc outsourcing are some of the challenges, according to various authors.

### **2.2.7 The Risks of Outsourcing**

Some organizations do not achieve the expected benefit from outsourcing. For example, a report quoted only 5% of companies surveyed achieved significant benefits from outsourcing, because the organization focusing on achieving short-term benefits, lack of formal outsource decision-making processes including medium and long-term cost benefit analyses, increased complexity in the total supply network (Sanusi, 2020).

According to Basel Committee on Banking Supervision (2005) description, while the outsourcing of certain activities can create a number of benefits to financial service organizations, there are a number of risks which need to be managed effectively. Some of these key risks are listed out in the table below

**Table 2.1: Some Key Risks in Outsourcing**

<b>Risk</b>	<b>Major concerns</b>
Strategic Risk	The third party may conduct activities on its own behalf which are inconsistent with the overall strategic goals of the regulated entity. Failure to implement appropriate oversight of the outsource provider. Inadequate expertise to oversee the service provider.
Reputation Risk	Poor service from third party. Customer interaction is not consistent with overall standards of the regulated entity. Third party practices not in line with stated practices (ethical or otherwise) of Regulated entity.
Compliance Risk	Privacy laws are not complied with. Consumer and prudential laws not adequately complied with. Outsource provider has inadequate compliance systems and controls.
Operational Risk	Technology failure. Inadequate financial capacity to fulfil obligations and/or provide remedies. Fraud or error. Risk that firms find it difficult/costly to undertake inspections.
Exit Strategy Risk	The risk that appropriate exit strategies are not in place. This could arise from over-reliance on one firm, the loss of relevant skills in the institution itself preventing it bringing the activity back in-house, and contracts which make a speedy exit prohibitively expensive. Limited ability to return services to home country due to lack of staff or loss of intellectual history.
Counterparty Risk	Inappropriate underwriting or credit assessments. Quality of receivables may diminish.
Country Risk	Political, social and legal climate may create added risk. Business continuity planning is more complex.
Contractual Risk	Ability to enforce contract. For offshoring, choice of law is important.
Access Risk	Outsourcing arrangement hinders ability of regulated entity to provide timely data and other information to regulators. Additional layer of difficulty in regulator understanding activities of the outsource provider.
Concentration and Systemic Risk	Overall industry has significant exposure to outsource provider. This concentration risk has a number of facets, including: <ul style="list-style-type: none"> <li>• Lack of control of individual firms over provider; and</li> <li>• Systemic risk to industry as a whole.</li> </ul>

**Source:** Basel Committee on Banking Supervision (2005)

Management is all about managing risks and uncertainty. There would be nothing to manage if everything was certain and so predictable. Every undertaking involves some level of risk. Risk assessment analyzes risk and associated risk mitigation techniques by taking a broad picture of

the organization and the planned outsourcing endeavor. When you consider that risk is associated with any project, you must segment the risk into different categories: strategic risks, operational risks, technology risks and financial risks (Power, 2006 cited at Workalemahu, 2015).

### **2.2.8 Core Banking System Products**

**Automated Teller Machines (ATM):** It is an electronic terminal that allows customers to access financial services at practically any time. ATM card is useful to a card holder as it helps him/her to withdraw cash from banks even when they are closed. Moreover, a consumer needs an ATM card and a personal identification number (PIN) (Gordaon and Natarajan, 2006).

**Point-of-Sale Transfer Terminals (POS)** is typically includes a computer, a cash register and other equipment or software used to sell goods or services. The system allows consumers to pay for retail purchase with a check card, a new name for debit card. This card looks like a credit card but with a significant difference. The money for the purchase is transferred immediately from account of debit card holder to the store's account (Malak, 2007).

**Internet banking:** referred as online banking, web banking or virtual banking, an outgrowth of PC banking, is a more developed service, a system that enables bank customers to access accounts and general information on bank products and services or perform account transactions directly with the bank through a personal computer using the internet as the delivery channel. 4. **Mobile banking:** is best described as the newest channel in a banking to provide a convenient way of performing banking tractions using mobile phones or other mobile device. The potential for mobile banking may be for greater than online PC users (Singh and Nayak, 2012).

**Telephone banking:** is a service provided by a bank or other financial institution that enables customers to perform a range of financial transactions over the telephone, without the need to visit a bank branch or automated teller machine offer the service on a 24-hour basis. Most financial institutions have restrictions on which accounts may be accessed through telephone banking, as well as a limit on the amount that can be transacted (Essayas, 2016).

**PC-banking:** A banking service that enables bank customers to access their account information and perform certain bank transactions using a personal computer and a modem. It has become a popular method for people to manage money and pay bills using online servers to log in to their

account and pay bills, transfer money between accounts and reconcile check ledgers (Essayas, 2016).

**Credit and Debit Card:** It is a normal card whereby a holder is able to purchase goods, without having to pay cash immediately. Credit card is built around revolving credit principle. Generally, a limit is set to the amount of money a cardholder can spend a month using the card. At the end of every month, the holder has to pay a percentage of outstanding. Debit card is used for purchasing goods and services or for obtaining advances for which payments is made from existing funds at bank accounts (Gordaon and Natarajan, 2006).

### **2.3 Empirical Literature Review**

The global trends indicate that outsourcing business has enormous potential for the participating nations. There are huge possibilities of increasing the size of the cake in terms of total outsourcing market and also of increasing the number of contestants for such market. Belwal, Singh and Dixit (2005) proved that, the business is all set to move broader from the domain of cost differentials though just off shoring jobs to incorporate more mergers and acquisitions among organizations. Global spending on IT services is expected to reach \$585 billion based on the estimates by the United Nations Conference on Trade and Development.

The global outsourcing market in terms of total contract value has grown from US \$146 billion in the year 1996 to US\$1.3 trillion in 2007, thus, several global sources have reported that at worldwide, outsourcing engagements have been growing and will continue to grow consistently both in terms of number of contracts and their average contract value (Kioko, 2017).

Despite outsourcing security services from private security companies, commercial banks in Kenya continue to report various incidences of fraud and security breaches which have resulted to massive losses to the banks. In 2016, the Banking Fraud Investigation Department (BFID) reported that the cases of fraud and security breaches reported by commercial banks were 513. This was a year-on-year drop from the drop 605 cases reported in 2015 and 661 that were reported in 2014. Specific cases reported in 2016 include 32 cases of card fraud, 177 cases of cheque fraud, 64 cases of forgery and 83 cases of identity theft. In these cases, approximately KES 330 million was lost (Githae, Theuri and Kaguta, 2018).

Nigerian banks rely more on contract staff to boost their operations. These contract staffs are gotten through various human resource outsourcing agencies. The second quarter of 2018 shows that, the banking sector employed a total of 43,955 contract staffs as employees; this increased by 101% when compared to the previous year which stood around 21,837. The data further revealed that contract staff as a percentage of total employees in the banking industries as raised from 26% at the start of 2017 to about 43.2% in 2018 (Naira metrics, 2018 cited at Sanusi, 2020).

According to Porter's studies stated at Kaźmierczyk and Macholak (2014), the tasks assigned to outsourcing concentrated on three areas: information technology (30%), human resources (16%), and marketing & sales (14%). However, many factors influence using outsourcing encouragement, or dealing with some trouble. Outsourcing can be contracted-out to entities operating in the same country, or entities operating in another country.

The unfavorable economic context determines the large companies to outsource business processes in the main line, thereby sacrificing a part of control over resources and information to reduce costs. The level of savings made by outsourcing companies can reach 10 to 15% on the total cost, mainly due to economies of scale (Troacă and Bodislav, 2012).

## **2.4 Research Gap**

The study by Mistura and Oluyemisi with the title "Determinants of Outsourcing Decision among Commercial Banks in Nigeria" in 2019; the findings revealed that outsourcing activities were driven by cost reduction and market penetration. The need to focus on core activities, improvement of service delivery and quality, to meet changing customers' needs and improve operational efficiency constituted the underlining forces behind the strategic decision by banks to outsource in Nigeria. However, it was also established that outsourcing has its own risks and cost. Hence, the paper cautioned banks to weigh the costs and benefits of the outsourcing decisions. Furthermore, it is also vital for the management of the banks to regularly review and update its outsourcing process and be actively involved in the selection of the outsourcing firms

Mensah, Osei-Owusu and Nartey study on "Assessing the Role of Outsourcing in a Financial Institution: The Case of Prudential Bank Limited (Ghana), in 2013, interestingly, certain findings were discovered which include benefits and challenges faced by the bank in outsourcing some of their activities. Some of these challenges were known to be quality problems; inability to

nurture-in-house talent, poor supplier selection, high cost, loss of managerial control, failure to conduct outsourcing exercise, lack of proper planning and understanding the core activities from non-core activities.

The study by Qian, Aisaata and Miao, with the title ‘‘Human Resource Outsourcing in Banking Sector: Case Study of UBA Bank-Guinea’’ in 2019, The paper focused on Human Resource Outsourcing in Banking sector looking at UBA Bank of Guinea. Based on literature review and empirical evidence corrected through inter-views from UBA Bank officials, the paper defines outsourcing concept, and highlights impact of outsourcing on organization, and on employees. The re-searcher then delves in issues areas looking at Human resource models, and then highlights strategic reasons advanced for outsourcing; while discussing economic reasons for outsourcing, vendor selection and decision making in outsourcing process.

The study by Ayienda and Willy with the title ‘‘Factors Influencing The Adoption Of Service Outsourcing Among Commercial Banks In Western Kenya’’ in 2015; the findings revealed that quality of service influences service outsourcing by commercial banks in Western Kenya. From the research findings, majority of the respondents agreed that quality influence service outsourcing among commercial banks in western Kenya region.

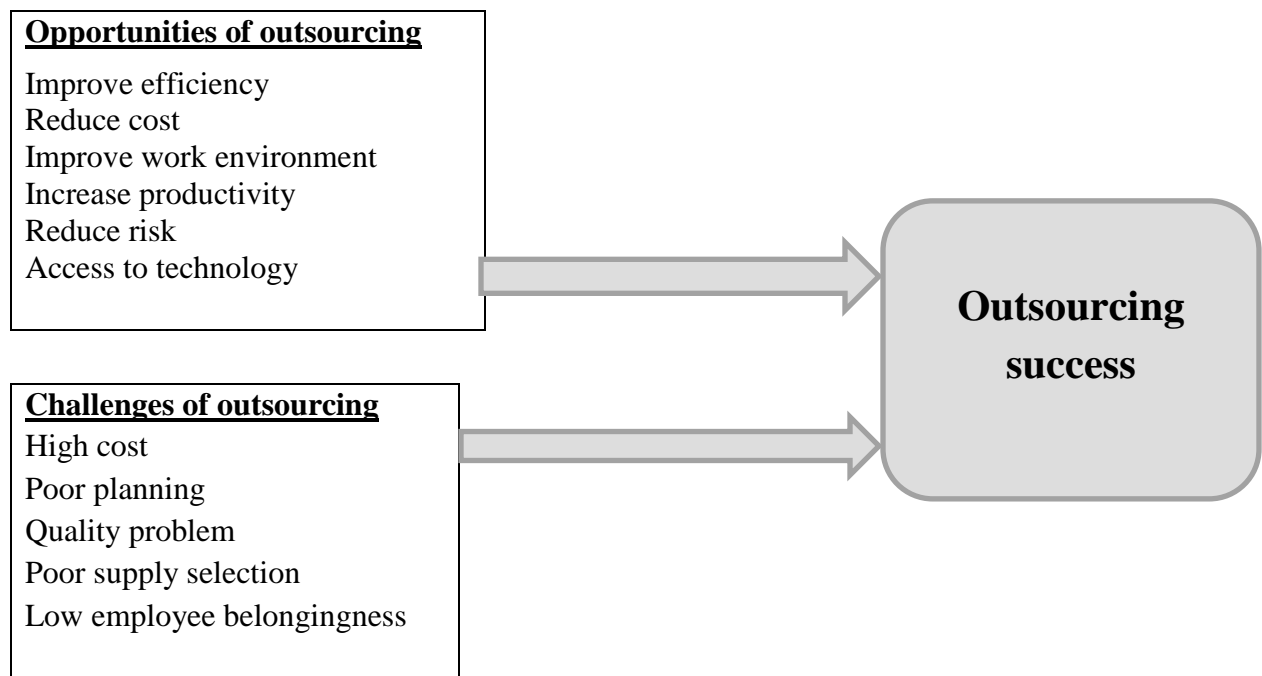
Sanusi (2020) undertake study with the tittle analysis of Outsourcing Activities in the Banking Industry in Nigeria: The Rationale and Perceived Benefits; The paper found that security, cleaning, recruitment, training, human resources and ATM are the most outsourced services in the Nigerian Banking Industry. The study however revealed that, technical convenience and efficiency, increased productivity/performance, the need to focus on core activities, Improvement of service delivery and quality, as well as to meet changing customers’ needs are the major rationale for outsourcing in Nigerian banking industry. In addition, the study concluded that increased flexibility, growth of banks and increased services are the major benefits of outsourcing in the Nigerian Banking Industry.

The study by Abebe Maru Feleke (2015) with the title ‘‘Challenges and Prospects of Outsourcing: The Case of Commercial Bank of Ethiopia’’ the findings of the study show that the outsourced services enabled the bank to save managers time, give more attention for the core functions of the bank rather than noncore areas and expand its branch aggressively. On the contrary defining SLA, selecting the right vendor, loss of direct controlling and measuring

service qualities were the challenges of the bank as the result of outsourced services. In addition to these, employees of the service provider were not properly trained about their job, lack motivation and belongingness, not properly equipped with materials that help to perform their job. Thus, all the studys were undertaken at government banks in Ethiopia, as the result my study differs in time, bank character, place, objective and research methodology.

## 2.5 Conceptual Frameworks

Banks are outsourcing their different reasons and through expecting various benefits for the study, having certain challenges the study frames through setting the following determinants such as improve efficiency, reduce risk, improve work environment, increase productivity, reduce risk and access to technology; having challenges like high cost, poor planning, quality problem, poor supply selection and low employees belongingness and the success of outsourcing was examined.



**Figure 2.1: Conceptual frameworks**

**Source:** literature Review and researcher own view, 2022

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

Under this section, the research methodologies use such as research design, approach, sampling techniques, sampling methods, data sources and collection methods, data interpretation and analysis method will be described as below.

### **3.2 Description of the Study Area (Bunna Bank)**

Bunna Bank is a privately owned commercial company established in October 10, 2009 with subscribed and paid up capital of birr 308 million and birr 156 million, respectively. However paid up capital has increased to over birr 2.1 billion and the number of shareholders has increased to over 13,024, which makes it one of the strongest and public based private bank. The head quartered is found in Addis Ababa around bole. It operates through a network of over 350 branches, nine dedicated Forex Bureaus, more than 50 ATMs, and 22 Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationships with 464 banks covering 71 countries and 175 cities across the world. It has more than 2,700 employees. The Bank works in partnership with prominent money transfer operators like Western Union, Money Gram, Express Money, Dahabshiil, TransFast, Ria, World Remit & Kaah (Haregeweyn, 2022).

#### **Research Approach**

Dawson (2002) describes a qualitative research approach that helps to explore attitudes, behavior, and experiences through the use of methods such as methods interviews or focus groups. It attempts to get an in-depth opinion from participants, and fewer people take part in the research, but the contact with people last a longer time. The study used a qualitative research approach to gather data relating to the determinants of outsourcing practices, the main activities outsourced by Bunna bank, the opportunities obtained as a result of outsourcing and the challenges encountered in carrying out outsourcing from Bunna bank district heads outsourcing agencies heads using interview.

Whereas, the quantitative research approach involves the generation of data in quantitative form, which can be subjected to rigorous quantitative analysis in a formal and rigid fashion (Kothari (2004). It generates statistics through the use of large-scale survey research, using methods such as questionnaires or structured interviews and reaches many more people, but the contact with those people is much quicker (Dawson, 2002). Based on these rationales, the study was also designed to collect quantitative data on the determinants of outsourcing practices, the main activities outsourced by Bunna bank, the opportunities gained as a result of outsourcing, and the challenges encountered in carrying out outsourcing via open and closed-ended questionnaires from selected Bunna bank district employees. Therefore, mixed research approach was used because the weakness of one approach was covered the other approach.

### **3.3 Research Design**

For this study, descriptive research design was used because, the major purpose of descriptive research as Kothari (2004) explains, is the description of the state of affairs as it exists at present and concerned with describing the characteristics of a particular individual, or of a group.

Hence, descriptive research design was designed to describing the determinants of outsourcing practices, the main activities outsourced by Bunna bank, the opportunities obtained as a result of outsourcing and the challenges encountered in carrying out outsourcing using open and close ended questionnaires from the selected Bunna bank district employees.

### **3.4 Time Dimensions of the Research**

The cross-sectional technique requires at least a single measurement for each individual within the particular groups while, the longitudinal approach is considered a sound method than cross-sectional technique. This type of genetic method is used in the repeated observations or measurements of the same group over a period of years (Singh, 2006).

For the study, cross sectional time dimension was applied, because the determinants, main activities outsourced, the opportunities obtained as a result of outsourcing and the challenges encountered in carrying out outsourcing was assessed for concerning respondents using measurement units at once.

## **3.5 Sample Design**

### **3.5.1 Population of the Study**

It is the total of items about which information is desired. For this study the populations were employees of Bunna bank from which sample were drawn. Therefore, the target populations were employees of Bunna bank who have worked at city branches. There are about 2800 employees at Bunna bank from these 452 employees were the target population of the study

### **3.5.2 Sampling Frame**

Sampling frame consists of a list of items from the population which the sample is to be drawn. For, the study the sampling frame were lists of Eastern, Southern, and Western Addis Ababa Bunna bank districts which are stated in population of the study.

### **3.5.3 Sample Unit**

A decision has to be taken concerning a sampling unit before selecting sample. For this study employee of Bunna bank at Addis Ababa branches and offices have been unit of observation for the study. The employees were taken from supplies manager, property and facility management directorate's human resources manager or finance. The choice of the departments is because of their direct involvement in outsourcing matters.

### **3.5.4 Sampling Techniques**

For this study multi-stage sampling techniques was used. At the first stage, the banks were grouped in government and private banks from these private bank were selected purposively due to the researchers believe to get appropriate data from the select branch's.

At the second stage, Bunna bank has six districts namely East, North, South, West, North east and, North west distinct in Ethiopia. From this branches Eastern which is found around Kebena, Southern which is found Mekanisa, and Western which is found around Abnet are located in Addis Ababa were selected purposively.

At the third stage, at East, South, and West districts of 80 employees sample from each districts were taken using purposive sampling method.

### 3.5.5 Sample Size

To determine the sample size from selected districts of Bunna bank, persuasive sampling method was used. Therefore, for the study the samples were 240

**Table 3.1: Sampling Distribution**

No	Name of the district office	Number of sample taken
1	Eastern	80
2	Southern	80
3	Western	80
	Total	240

**Sources:** Bunna bank, 2022

### 3.6 Data Sources and Types

For this study, both primary and secondary data sources were used; for primary data institutions, Bank managers and key personnel, outsourcing agencies were the primary data sources.

Whereas, the secondary data sources were books and literatures, websites (internet) and other available sources and quoted where necessary and used to draw deductions as per the study

### 3.7 Data Collection Method

The main data collection methods were questionnaires, interview and document reviews. Each of them has described as follows: -

#### 3.7.1 Questionnaire

The researcher was collect data using open and close ended questionnaires. The questionnaires were prepared in English language through categorizing in to parts. The questionnaire consists of two parts. Part one is prepared to gather demographic information about the respondent's age, sex, marital status, educational level, department, qualification and the work experience. Part two were prepared based on specific objectives such the determinants of outsourcing practices, the main activities outsourced by Bunna bank, the opportunities obtained as a result of outsourcing

and the challenges encountered in carrying out outsourcing, this part consists of multiple questions and open ended questions.

### **3.7.2 Interview**

Structured and non-structured interview were made for property and facility management manager, selected branch managers, human resources manager, Information and communication department at Bunna bank who are select purposively. Interview questions were prepared based on the determinants of outsourcing practices, the main activities outsourced by Bunna bank, the opportunities obtained as a result of outsourcing and the challenges encountered in carrying out outsourcing and other significant questions.

### **3.7.3 Data Collection Procedure**

The researcher was use three steps in collecting the data for the study. First, relevant literature was reviewed to get adequate information challenges and prospects of outsourcing. Second, objectives and research questions were designed to show the direction of the study. Third, data gathering tools were designed. After the questionnaire were distributed and collected, interview with the senior managers and other officers of the bank has conducted.

## **3.8 Data Analysis Technique**

Data collected through closed ended questions would have edited, coded and entered on Statistical Package for Social Science (SPSS) software version 23 program. Afterward, the data were analyzed by using inferential and descriptive statistics. Quantitative data were analyzed using descriptive statistics such as tables, percentages frequencies, means, percentages and standard deviations; and inferential statistics such as linear regression and correlation analysis.

## **3.9 Data Reliability and Validity**

This study was used content validity to measure the degree to which the sample of the items represents the content that the test was designed to measure what has to be measured. To refine and validate questions asked prior to banks' survey, the questionnaire was thoroughly checked for accuracy and completeness.

Validity is concerned with the extent to which an instrument measures what it is intended to measure. Reliability is concerned with the ability of an instrument to measure consistently.

The number of test items, item interrelatedness and dimensionality affect the value of alpha. There are different reports about the acceptable values of alpha, ranging from 0.70 to 0.95. Coefficients of .90 or greater are nearly always acceptable, 0.80 or greater is acceptable in most situations, and .70 may be appropriate in some exploratory studies for some indices.

By tracing this literature, the researcher tested the reliability of the items which was developed for respondents. However, the low value of alpha was due to a low number of questions, poor interrelatedness between items or heterogeneous constructs. Therefore, reliability was test using Cronbach's alpha for each specific questions.

### **3.10 Ethical Considerations**

The researcher considered every requirement of research ethics to establish trust with the participants and to respect them as autonomous beings, thus enabling them to make sound decisions. Ethical measures are as important ensuring the validity and reliability of the data collected. Other ethics to be considered informant consent, confidentiality, anonymity, privacy, dissemination of results, by ensuring the respondents that, the information provided are going to be used in research purpose only, and the respondents can have the right to withdraw from the study partially or completely. In addition, in order to maintain the ethicality of the study, the respondents were clearly informed about the aim of the study. Likewise, to ensure the reliability of the instruments, pilot test was undertaken.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

Data analysis and interpretation section is the core of the study portrays concerning general information about respondents, the opportunities obtained as a result of outsourcing and the challenges encountered in carrying out outsourcing at the study bank and the impacts of outsourcing at Buna bank Addis Ababa branch.

### 4.2 Response Rate

For this research data collection instruments were open and close ended questionnaires and interview. 240 questionnaires are distributed to city branches and offices of Buna bank employees, from those questionnaires only 220 questionnaires are collected regions and the rest 20 questionnaires are not collected. Hence, the response rate was 91.67%.

**Table 4.1: Response Rate**

Name of district	Distributed	Collected	Response rate (%)
Eastern Addis Ababa	80	75	93.75
Southern Addis Ababa	80	70	87.5
Western Addis Ababa	80	75	93.75
Total	240	220	91.67

**Source:** Field Survey, 2022

### 4.3 Demographic Data of Respondents

Under this section demographic profile of respondents such as, gender, age, educational background, job title, years of experience in Buna Bank was described as:

In relation to gender categorization, the majority of the respondents 140(63.3%) are male whereas 80(36.7%) of the respondents are female respondents of the study. The percentage rate shows that the male respondents are higher than the female respondents and greater parts from the respondents were male.

In regarding to age category of respondents, 110(50%) of the respondents have an age below 30 years old and 103(46.7%) of respondents have the age between 30-40 years of old. The remaining 7(3.3%) have the age of involving 41-50 years of old.

Table 4.2 below reveals educational status of respondents, 147(66.7%) of respondents have first degree educational level, 51(23.3%) from the respondents have above first degree educational background. Whereas, 22(10%) of the respondents have diploma educational level. Hence, the result shows that majority of respondents included for this study have adequate educational level.

In relation to job title of respondents, from the total employees included for the study there are 187(85%) officer and 33 (15%) are managers.

**Table 4.2: Demographic Data of Respondents**

Option	Variables	Response	
		Frequency	Percentage
Gender	Male	140	63.3
	Female	80	36.7
Age	Below 30	110	50
	30-40 years old	103	46.7
	41-50years old	7	3.3
Educational background	Diploma	22	10
	First degree	147	66.7
	Above first Degree	51	23.3
Job title	Officer	187	85
	Manager	33	15
Year of service at Bunna bank	Less than 5year	150	68.1
	6 to 10 years	30	13.6
	10 to 15years	25	11.3
	Above 15 years	15	6.8

Source: Field Survey, 2022

#### **4.4 The Opportunities Obtained from Outsourcing**

Table 4.3 contains findings on some of the opportunities the bank gets as a result of it outsourcing some services. Respondents were provided with options such as (SA=strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=strongly Disagree) each can be described as below.

Form the opportunities improve business focus was agreed by 143(65) respondents and strongly agreed by 44(20%) respondents, while, the improve business focus as an opportunity by outsourcing was disagreed and strongly disagreed by 15(6.7) equal response rate and the remaining 4(1.7%) informants were being at the state of neutral on the issue. Thus, significant numbers of respondents 85% were agreed on the contributions of outsourcing for the improvement of business focus at Buna international bank.

The access to world class as the other opportunities of outsourcing was strongly agreed by 110(50%), agreed by 73(33.3%), disagreed by 18(8%), strongly disagreed by 11(5%) and undecided by 8(3.7%) respondents from Buna bank selected branch in Addis Ababa. Therefore, majority respondents were agreed on the access of world class as the remaining opportunities acquaint outsourcing the services of bank.

In relation to accelerated re-engineering as of from the opportunity of outsourcing and its benefit was agreed for 132(60%), strongly agreed for 55(25%), disagreed for 15(6.7%), strongly disagreed for 11(5%) and undecided by 7(3.3%) included respondents at Buna bank.

The practices of outsourcing help to share some tasks which implies the deficiency was also shared between institutions, 114(52%), 84(38%), 15(6.7%) and 7(3.3%) informants were agreed, strongly agreed, disagreed and strongly disagreed equal response rate and undecided respectively. Thus, majority from the respondents were agreed on the opportunities get was to share risks at the selected bank.

Free resources for other activity as one from the opportunity of outsourcing, from the informants 50% which covers half from entire respondents 110 strongly agreed; which was followed by 73(33.3%) agreed, the other with lower response rate such as 18(8.3%) disagreed, 11(5%) strongly disagreed and 7(3.3%) undecided on the opportunities get includes free resources for other activity at Buna International bank selected branch.

The table also shows that, 147(66.7 percent) neutral and 44(20 percent) agreed on the outsourcing of service helps to improve quality of service while, 11(5%) strongly disagreed and strongly agreed with equal response and 7(3.3%) were disagreed on the stated opportunities at the bank. Thus, greater from the included informants were agreed on the contribution of outsourcing for improving quality of services at Buna bank branch's.

The other opportunity was relating to reducing overheads and operational costs which was strongly agreed by 128(58.3%) respondents, agreed by 51(23.3%), undecided by 26(11.7%), strongly disagreed by 11(5%) and 4(1.7%) were disagreed on the stated opportunity. Therefore, from the response rate we can see that, reducing the overheads and operational costs was one form the opportunities acquire from outsourcing services in Buna bank.

**Table 4.3: The opportunities from outsourcing**

<b>Opportunities</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Improve business focus	15(6.6)	15(6.7)	4(1.7)	143(65)	44(20)
Access to world class	11(5)	18(8.3)	8(3.3)	73(33.3)	110(50)
Accelerated re-engineering	11(5)	15(6.7)	7(3.3)	132(60)	55(25)
Shared risks	15(6.7)	15(6.7)	7(3.3)	114(51.7)	70(31.7)
Free resource for other	11(5)	18(8.3)	7(3.3)	73(33.3)	110(50)
Improve quality of service	11(5)	7(3.3)	147(66.7)	44(20)	11(5)
Reduced overheads and operational costs	11(5)	4(1.7)	26(11.7)	51(23.3)	128(58.3)
Outsourcing helped the bank to focus on more strategic areas rather than none core activities	11(5)	7(3.3)	11(5)	92(41.7)	99(45)
Outsourcing helps for bank to access new skills not available internally	11(5)	7(3.3)	18(8.3)	110(50)	73(33.3)
Outsourcing saves management time and money through reduced the need to control day to day operations	18(8.3)	4(1.7)	4(1.7)	77(35)	117(53.3)
Improves flexibility	18(8.3)	15(6.7)	7(3.3)	44(20)	136(61.7)
Assist the fast expansion of the bank	15(6.7)	99(45)	7(3.3)	18(8.3)	81(36.7)
Competitive price	7(3.3)	4(1.7)	4(1.7)	99(45)	81(36.7)
Access to external competencies	11(5)	11(5)	4(1.7)	40(18.3)	154(70)
concentrating on Bank's core business	15(6.7)	11(5)	4(1.7)	117(53.3)	73(33.3)

**Source:** Field Survey, 2022

Table 4.3 also reveals, 99(45%), 92(41.7%), 11(5%) and 7(3.3%) respondents were strongly agreed, agreed, undecided and strongly disagree equally and disagreed on outsourcing helped the bank to focus on more strategic areas rather than none core activities at Buna bank. therefore, significant numbers of employees for Buna international bank were agreed on the issue such as outsourcing helped the bank to focus on more strategic areas rather than none core activities at their respective branch.

Relating to the opportunities which deals with outsourcing helps for bank to access new skills not available internally and included respondents were agreed by 110(50%), strongly agreed by 73(33.3%), undecided by 18(8.3%), strongly disagreed by 11(5%), and disagreed by 7(3.3%) response rates. Hence, the response shows, there is ideal agreement by greater employees of the selected by on outsourcing helps for bank to access new skills not available internally.

Concerning to outsourcing saves management time and money through reduced the need to control day to day operations was strongly agreed by 117(53.3%), agreed by 77(35%), strongly disagreed by 18(8.3%) and disagreed and undecided by equal response rate of 4(1.7%) respondents, thus, the response rate reveals that, outsourcing saves management time and money through reduced the need to control day to day operations at Buna bank.

The opportunity relating to improving flexibility was strongly agreed for 136(61.7%), agreed for 44(20%), strongly disagreed for 18(8.3%), disagreed for 15(6.7%) and undecided by 7(3.3%) respondents at the selected branches of Buna bank.

The outsourcing of tasks at bank was helps to assist the fast expansion of the bank but the contribution was disagreed by 99(45%), strongly agreed by 81(36.7%), agreed by 18(8.3%), strongly disagreed by 15(6.7%) and undecided by 7(3.3%) respondents. Thus, greater form the included informants were disagreed concerning the fast expansion of bank branches with the help of outsourcing banks services at Buna bank.

Competitive price was the other advantages of outsourcing and employees from Buna bank included at this study were agreed 99(45%), strongly agreed by 81(36.7%), strongly disagreed by 7(3.3%) and disagreed and undecided with equal response rate 4(1.7%) response rate. Thus, there is general agreement on the set of competitive advantage through outsourcing selected bank services.

With the help of outsourcing the tasks from bank services, it can possible to access to external competences which was strongly agreed, agreed, strongly disagreed and agreed and undecided by 154(70%), 40(18.3%), 11(5%) and 4(1.7%) at their respective manner. Therefore, from the benefits that was get from outsourcing services was the easy access of external competences at Buna bank.

The remaining opportunity was outsourcing helps to concentrating on Bank's core business and there is an agreement by 117(53.3%), strongly agreement by 73(33.3%), and smaller proportions such as 15(6.7%) were strongly disagreed, 11(5%) disagreed and 4(1.7%) were undecided on the contribution of outsourcing for targeting at banks core business activities' at Buna bank. Therefore, outsourcing helps the bank to concentrate at core bank business services.

In general, the result shows that the main reason for the application of outsourcing by Buna bank was striving to reduce operational costs. The first phase of outsourcing in the bank was to reduce employment, and outsource some tasks beyond the organization. That is why outsourcing is associated by employees with dismissal. From the benefits that can attain with outsourcing were improve business focus, the access to world class, accelerated re-engineering, share risks, free resources for other activity, reducing overheads and operational costs, outsourcing helped the bank to focus on more strategic areas rather than none core activities, outsourcing helps for bank to access new skills not available internally, outsourcing saves management time and money through reduced the need to control day to day operations, improving flexibility, competitive price, access to external competences and concentrating on Bank's core business were some of the benefits acquire from outsourcing practices.

This fact was also insured by different previous studies to take some of them, the study by Frimpong – Manso, Agyei and Gonu, (2018) showed that, outsourcing brings many benefits to the bank. Some of the benefits are that it reduces the cost and risks in operations. It puts the bank in a position to have best practices in the banking industry and to enhance its business. It also helps the bank to improve and focus on customer satisfaction.

Furthermore, Jegede (2015) identified five ways in which outsourcing activities are beneficial to an organization. These benefits are, focused on core competence, reduction in staff head counts/size, curtailing and preventing industrial disputes, cost reduction in manager's burden and meeting targets. In another study by (Basel committee, 2005), it was stated that, the benefits of increasing use of outsourcing transcend cost reduction but also as strategy to minimize risk and improve core competency.

## 4.5 The Challenges of Outsourcing

Under this section, the main challenges that hinder the proper implementation of outsourcing service at Buna bank was described as below

As shown at Table 4.4 below, majority 172(78.3%) of the total respondents replied that quality problems of the service provided by the supplier is high than anticipated by the bank. While, for 37(16.7%) and 11(5%) of respondent's quality service as a challenge of outsourcing have low and medium hindering effects respectively. From this it can be generalize that the service provided lacks quality and is not satisfactory.

Majority of the respondents representing 150(68.3%) said the challenge related to chance to nurture – in house have higher effects. The others 32(1.6%) and 22(10%) rated the stated challenges at low and medium curbing effects respectively. Here again the chance to nurture – in house is challenge for adopting and make exercise outsourcing practices at the study area.

As table 4.4 below depicts, poor supplier selection has high 114(51.7%) curbing effects on outsourcing, while for 73(33.3%) respondents rated the challenges at lower rate and 33(15%) rated the challenge at medium rate at the study area. Thus, the response rate indicates, poor supplier selection has higher hindering effects for the getting adequate the expected services from outsourcing services at Buna bank.

As per the response, 154(70%), 51(23.3%) and 15(6.7%) of the total respondents believed higher cost have higher, lower and medium hindering effects respectively for getting appropriate services from outsourcing services at this bank.

The other challenge that hinder outsourcing includes the failure to conduct the outsourcing exercise and 95(43.3%) informants were rated at lower level, and others were rate at medium and higher rate with equal response rate 62(28.3%) at the selected bank branch. Thus, infers the failure to conduct the outsourcing exercise have lower hindering effects on the operation of outsourcing practices at the bank.

The challenge relating to poor planning was rated at higher level with 95(43.3%), lower level 91(41.3%) and at medium rate by 33(15) hindering effects for weaker practices of outsourcing at

the study branch's. Therefore, the result insured that, poor planning has medium (3.06) mean values for the adoption of outsourcing at Buna bank.

Table 4.4 also reveals, lack of understanding was rated as low by 114(51.9%), medium 95(43.3%) and high 11(5%) hindering effects that affect the use of outsourcing practices at Buna bank. Hence, greater informants were rate the challenges relating to lack of understanding have lower effects for applying outsourcing system at the bank.

Concerning loss of control as one from the challenges, 112(50.9%) responds that Buna bank losses direct controlling the day to day activities and information sources, whereas, others 37(16.6%) rated the loss of control at low and remaining 33(15%) remains at medium rate. However, in supporting and or at against different studies were undertake, among the studies, the study by Domberger (1998) depicted that, outsourcing involves the perceived loss of control. Many managers adhere to the view that ownership means control. In outsourcing if complementary assets are independently owned, cost will higher and efficiency lower than if they are held under single ownership. Thus, this indicates loss of control through fragmented ownership implies higher cost or inefficiency. In addition, due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

Table shows that 165(75%) of the total respondents replied that the level of challenge on quality of workers provided by the supplier is too low than anticipated by the bank have medium effects and 40(18.3%) of the respondents replied the level of challenge regarding quality of worker lower. On the other side, only 15(6.7%) of the respondents responded that the level of challenge is high at the bank. This it can be renowned that the quality of workers provided by outsourcing companies is not satisfactory. Buna bank has expected the quality service to be multiplied while outsourcing its services but the result is the reverse and it is still one of the main challenges faced at the bank.

Unethical behavior was the other challenges of outsourcing, as shown at table below, 84(38.4%) of the respondents said unethical behavior of the outsourced employees were the highest problem in the bank, while smaller ratio such as 66(30%) rated the stated challenges at low and 26(11.7%) rated at medium hindering effects at the study branch bank. Thus, from the response

rate we can have concluded that, unethical behavior of the employees has higher hindering effects on the services of outsourcing at Buna bank.

As shown at Table 4.4 below, majority 84(38.3%) of the respondents replied as difficulty of measuring service quality at low rate, while 66(30%) of them rated the stated challenge at high hindering effects and the remaining 70(31.7%) rates the challenge at medium level. The response rate was proved with the study of Dickstein and Flast (2009), they assured that, outsourcing bank services such as intangible products like security service, courier service and janitorial service are not as such transparent, and it is difficult to measure the service like that of tangible products.

**Table 4.4: the challenges of outsourcing**

<b>Descriptive Statistics</b>					
	High	Medium	Low	Mean	Std. D
Quality problem	172(78.3)	11(5%)	37(16.7)	2.6	1.8
Chance to nurture – in house	150(68.3)	22(10)	48(21.6)	2.4	1.34
Poor supplier selection	114(51.7)	33(15)	73(33.4)	2.1	1.34
High cost	154(70)	15(6.7%)	51(23.3)	2.46	1.45
Failure to conduct the Outsourcing exercise	62(28.3)	62(28.3)	95(43.3)	1.84	1.45
Poor planning	95(43.3)	33(15)	91(41.3)	2	1.46
Lack of understanding	11(5)	95(43.3)	114(51.9)	1.5	.92
Low Employee belongings	128(58.3)	44(20)	48(21.7)	2.3	1.29
Conflict of interest between outsourced employees and permanent bank employees.	180(81.7)	22(10)	18(8.3)	2.7	1.41
Difficult to measure service quality	66(30)	70(31.7)	84(38.3)	1.9	1.41
Loss of control over bank key information resources	150(68.3)	33(15)	37(16.6)	2.5	1.15
Quality of workers provided by the supplier is lower than anticipated.	15(6.7)	165(75)	40(18.3)	1.88	1.26
Unethical behavior the employees.	128(58.3)	26(11.7)	66(30)	2.28	1.58
Communication and coordination difficulties	121(55)	48(21.7)	51(23.3)	2.3	1.28
Contract termination problems	45(20.3)	48(21.7)	77(35)	1.4	1.39
Continuous increase in price	169(76.7)	37(16.7)	15(6.7)	2.7	1.92

**Source:** Field Survey, 2022

As we see from the table above also, more than half 128(58.3%) of the respondents replied that low employee belongingness is a serious challenge at Buna bank. while 48(21.7%) rated the stated problem at low and 44(20%) rated the low employee belongings at medium hindering effects on outsources of bank services, Thus the lower belongings of employees during outsourcing services have higher abstaining effects to insure the effectiveness of outsourcing service at Buna bank

From the informants include for this study, 180(81.7%) rated the challenge relating to conflict of interest between outsourced employees and permanent bank employees at higher level. However, smaller proportions from the respondents such as 22(10%) and 18(8.3%) of the respondents responded that they believe the challenge have medium and lower hindering effects on outsourcing respectively. Majority of the respondents representing 81.7 % said the problem related to conflict of interest among outsourced & permanent employees is just right. From the above data we can tell that conflict of interest among the employees that have been outsourced and permanent employees exists and it is high.

Table 4.4 clearly articulated that majority of the respondents representing 121(55%) believed the level of challenge regarding communication & coordination difficulty have higher effects; while 51(23.3%) rated the challenge at low and 48(21.7%) rated the challenge at medium level effects at the study area. From the data obtained we can say that communication and coordination difficulties are higher problems faced while outsourcing at Buna bank.

The table also reveals, 26(20.3%) replied contract termination problems have higher effects, while 77(35%) rated the challenge at lower rate and the remaining 48(21.7%) of the respondents believed the level of challenge in contract termination the medium problem at the selected bank. So it is noted that contract termination is the highest problem faced while outsourcing some of its services at Buna Bank.

Regarding to continuous increase in prices, 169(76.7%) of the informants believed the level of challenge regarding continuous increase in price is high. Whereas, for 37(16.7%) and 15(6.7%) respondents the challenge relating to continuous increase in price have medium and lower hindering effects for outsourcing services respectively. Hence, it can infer from the result that

price increment from the service providers is one of the highest challenges faced while outsourcing at Buna bank.

McIvor (2000) suggested only 5% of companies surveyed achieved significant benefits from outsourcing and the reasons for this; focusing on achieving short-term benefits, lack of formal outsource decision-making processes including medium and long-term cost benefit analyses, increased complexity in the total supply network.

According to Sourirajan (2015), since outsourced employees are not permanent staff of the company, the company cannot afford to create room for people to know certain vital information of the company that their competitors can use against them in such a competitive environment. Security in terms of health and safety measures at work greatly affects worker performance positively or negatively. Worker productivity is positively affected where a worker feels secured in a particular work environment and vice versa.

Contracting out services/activities entails significant loss of control over the performance of the activities. Associated with this loss or control are two basic risk, shirking and opportunities bargaining. Shirking refers to the vendor's under-performance on the contracted activities and opportunities bargaining refer to a vendor's ability to demand higher than market prices.

In addition, Stephenson (2007) there are many challenges associated with outsourcing or contracting out a business. Some of these challenges are lack of Proper Planning, failure to Conduct outsourcing exercise, loss of Control, poor supplier selection, lack of understanding the core departments from none-core, high cost, quality problems which are also found at the findings of the study

#### **4.6 The Impacts of Outsourcing**

Under this section, the impact of outsourcing based on the views of Buna bank was illustrated as below. The response was symbol as 5=Very high, 4=High, 3=Medium, 2=Low, 1=Very low rates to indicate the impact level.

As shown at table 4.5 below, from the impacts of outsourcing, the one was improve customer's relationships have medium effects for 70(31.7%); and high and very high impacts with equal

response rate 62(28.3%), while for others 7(3.3%) outsourcing have lower and very low impacts at Buna bank.

On the other side, Buna bank employees rated the impacts of out sourcing for improving service levels at medium 84(38.3%), high 62(28.3%), very high 59(26.7%), low 11(5%) and 4(1.7%) at their respective bank branch, this shows outsourcing of bank services helps to improve the service levels at the bank.

The other impact was reducing cost which have medium 84(38.3%), high 51(23.3%), very high 44(20%), very low 22(10%) and low 18(8.3%) impacts at Buna bank, these infers, from the impacts of outsourcing, the major one was the reduction of cost at the study area,

In relation to improve the quality of services, informants included at this study rate this kind of impact at medium by 70(31.7%), high by 62(28.3%), very high 59(26.7%), while for 15(6.7%) respondent's quality improvement with outsourcing bank service have very low and low outcomes at the study bank.

As shown at Table 4.5 below, the other impacts of outsourcing bank services were specializing in core competencies which was rated as very high with 73(33.3%), high 62(28.3%), medium by 51(23.3%), very low by 18(8.3%) and low by 15(6.7%) response rate, this insured that, the acquaint of specialized in core competences was the main impacts of outsourcing bank services at the selected bank.

The get of competitive advantage was the main impacts of outsourcing and its impact was rated as very high, high, medium, very low and low with 73(33.3%), 59(26.7%), 55(25%), 18(8.3%) and 15(6.7) respectively, therefore, the get of competitive advantage has higher impacts of outsourcing bank service at the study area.

**Table 4.5: Impacts of outsourcing**

Impacts of outsourcing	Response rate						
	1	2	3	4	5	Mean	Std.D
Improve customer's relationships	7(3.3)	18(8.3)	70(31.7)	62(28.3)	62(28.3)	3.70	1.08
Improve service levels	4(1.7)	11(5)	84(38.3)	62(28.3)	59(26.7)	4.00	1.00
Reduce costs	22(10%)	18(8.3)	84(38.3)	51(23.3)	44(20)	3.71	1.32
Improve quality	15(6.7)	15(6.7)	70(31.7)	62(28.3)	59(26.7)	3.68	1.16
Specialize in core competencies	18(8.3)	15(6.7)	51(23.3)	62(28.3)	73(33.3)	4.53	1.18
Competitive advantage	18(8.3)	15(6.7)	55(25)	59(26.7)	73(33.3)	3.70	1.23
Improve profitability	11(5)	15(6.7)	59(26.7)	70(31.7)	66(30)	3.75	1.11
Freed resources	18(8.3)	22(10)	44(20)	59(26.7)	77(35)	3.70	1.28

**Source:** Field Survey, 2022

The impacts relating to the improvement of profitability have high for 70(31.7%) respondents, very high 66(30%) respondents, medium for 59(26.7%), high for 15(6.7%) and very high for 18(8.3%) respondents.

The remaining impacts was relating to freed resources, which was valued as very high 77(35%), high 59(26.7%), high 44(20%), low 22(10%) and very low 18(8.3%) response rates, thus, outsourcing some task and services helps to reserve some resources which makes free and use maintain for other purpose of the bank.

Thus, from the response rate we can sum up that, the impacts of outsourcing include improve customer's relationships, improve service levels, reduce costs, improve quality, specialize in core competencies, competitive advantage, improve profitability and freed resources which all helps for the attainment of main objectives of the bank.

#### **4.7 Reasons Against Outsourcing**

Table 4.6 below reveals, employees and managers have various reasons to late outsourcing scheme. From the reasons for outsourcing against outsourcing were loss of jobs (M=4.25 and standard deviation 0.81); loss of confidentiality and security (M=4.23 and standard deviation 0.90); fraudulent use of customer account information (M=4.10 and standard deviation 0.88); loss of managerial control (M=4.16 and standard deviation 0.94); theft of customer funds

(M=4.30 and standard deviation 0.67); hidden costs (M=4.03 and standard deviation 0.93) and inflexibility creeps in (M=4.05 and standard deviation 0.81) response rates. Thus, implies all respondents were rated their reasons against outsourcing at high rate at Buna International bank.

**Table 4.6: Reasons for against outsourcing**

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. D
Loss of jobs	220	1.00	5.00	4.25	.81
Loss of confidentiality and security	220	1.00	5.00	4.23	.90
Fraudulent use of customer account information	220	1.00	5.00	4.10	.88
Loss of managerial control	220	1.00	5.00	4.16	.94
Theft of customer funds	220	2.00	5.00	4.30	.67
Hidden costs	220	1.00	5.00	4.03	.93
Inflexibility creeps in	220	1.00	5.00	4.05	.81

**Source:** Field Survey, 2022

The finding of the study was also supported by different researches and the 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 (Tayauova, 2012).

In addition, 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 (Bragg, 2006) 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 (Eyles, 1989).

The 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 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 (Jiang et al., 2003).

The outsourcing practice was not merely accepted by employees and managers, which was relating with various reasons; some are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams at Buna bank.

## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

This chapter deals with conclusions from main findings of the study and possible recommendation forwarded by the researcher to overcome the short comings.

### **5.2 Conclusions**

The main focus of this study is to determine the challenges and prospects of outsourcing practices at banks. This paper focuses exclusively on Buna banks in Addis Ababa branch's. Buna bank normally outsourced different activities such as, janitor, and security personnel. These outsourced staff work till the bank closes in a day.

Outsourcing brings many benefits to the bank. Some of the benefits are improving business focus, the access to world class, accelerated re-engineering, share risks, free resources for other activity, improve quality of service, reducing overheads and operational costs, outsourcing helped the bank to focus on more strategic areas rather than none core activities, outsourcing helps for bank to access new skills not available internally, outsourcing saves management time and money through reduced the need to control day to day operations, improving flexibility, competitive price, access to external competences and concentrating on Bank's core business were some of the benefits acquaint from outsourcing practices at Buna bank.

The use of outsourcing have various benefits, but, challenges were faced in varied manner among the challenges some incudes, quality problems, poor supplier selection, higher cost, loss of control, unethical behavior of the employees, low employee belongingness, conflict of interest between outsourced employees and permanent bank employees, communication and coordination difficulty, continuous increase in prices were hindering effects on the practices of outsourcing services while the following such as lower contract termination problems, difficulty of measuring service quality, lack of understanding, the failure to conduct the outsourcing exercise challenges types have lower hindering effects on the practice and use of outsourcing services in Buna bank.

In addition, the response rate concluded that, the impacts of outsourcing include improve customer's relationships, improve service levels, reduce costs, improve quality, specialize in core competencies, competitive advantage, improve profitability and freed resources which all helps for the attainment of main objectives of the bank.

The outsourcing practice was not merely accepted by employees and managers, which was relating with various reasons; some are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams at the bank.

### **5.3 Recommendations**

Outsourcing is a critical function in an organization because it has a direct impact on the firm's operational activities; however, the scheme has run into a number of issues that have hampered the success of outsourced services; as a result, the following remedial measures have been put in place for those responsible.

#### **➤ Properly identify outsourced services**

Outsourcing decision is not easy to take because the key question is what to outsource? The firms need to identify core competences before outsourcing them, according to competence based view, but firms also outsource their core competences now a day. Similarly, the banking sector is a very complex and delicate industry in which any error in its operation can have negative consequence on the overall economy of the country. Therefore, outsourcing should be adopted with caution and only where necessary and inevitable. Buna Bank operators must identify those activities that are core activities and those that are non-core activities and only those that are critical to the organization success should not be outsourced. They should be performed internally and develop professionals to handle them.

#### **➤ Design frequent monitoring scheme**

Buna bank must also ensure that they don't just engage the services of outsourcing agents to perform their non-core business activities or functions for them, without putting in place the right monitoring mechanism. Buna bank must therefore ensure that they put in place the right

monitoring mechanism to deter workers from engaging in activities that are not related to their main task in order to benefits from the outsourcing program at Bunna bank.

➤ **Resolve Conflict of Interest**

Another key issue that the bank should address is conflict of interest among outsourced and permanent personnel. Employees who perform the same job should be subjected to the same laws and regulations, and should be paid at the same rate and receive the same benefits as long as they work for the same organization. The bank should also make it easier to follow the rule of equal compensation for equal work, which reduces bank dispute..

➤ **Identify properly the service provider**

The findings of the study assured that, Buna bank does not get the services as expected; it is therefore recommended that when outsourcing organizations should select the service provider on the basis of consistent technical and managerial capabilities.

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# APPENDIX 1

## ADDIS ABABA UNIVERSITY

### SCHOOL OF COMMERCE

#### DEPARTMENT OF LOGISTICE AND SUPPLY CHAIN MANAGEMENT

Dear respondent

I would like to extend my heartfelt gratitude for your time and willingness to participate and provide valuable information in this questioner. This questioner is design to get an appropriate information on ‘ ’ assessment of opportunities and challenges of outsourcing practice in case of Bunna bank ’ ’

The main purpose of this study is for partial fulfillment of master’s degree in on logistics and supply chain management at Addis Ababa University. Your participation is anonymous, and it only be used for academic purpose.

Thank you in advance for your participation and sincere feedback.

#### Instructions

- Please do not write your name
- For close ended question put (√) mark and for open ended questions, write your response on the space provided.

#### Part I respondent profile

1. Gender:  Male  Female
2. Age (year):  below 30  30-40  41-50  above 50
3. Educational level:  high school complete  diploma  first degree  above first degree
4. Year of service at Bunna bank:  below 5 years  5-10 years  10-15 years  above 15 years
5. Which section of bank level do you work?  Officer  Managerial

**Part II Questions related to outsourcing practice**

Please read the statement and put (√) mark in the corresponding column for question 5 to 10 to show the extent the extent of your agreement as indicated below.

Note: 5 = strongly agree 4 = agree 3= neutral 2= disagree 1= strongly disagree

6. Major reasons for outsourcing bank Services. 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

No	Benefit of outsourcing	Response rate				
		1	2	3	4	5
1	Improve Business Focus					
2	Access to World Class					
3	Capabilities					
4	Accelerated Re-Engineering					
5	Shared Risks					
6	Free Resource for Other					
7	Improve quality of service					
8	Reduced overheads and operational costs.					
9	Outsourcing helped the bank to focus on more strategic areas rather than none core activities.					
10	Outsourcing helps for bank to access new skills not available internally					
11	Improved Qualities					
12	Outsourcing saves management time and money through reduced the need to control day to day operations					
13	Improves Flexibility					
14	Assist the fast expansion of the bank					
15	Competitive price					
16	Access to external competencies					
17	The ability to spread commercial risk					
18	concentrating on Bank’s core business					

Any others -----

7. Major challenges for outsourcing bank service. Please read the statement and put “√” mark in the corresponding column (i.e., 3=High, 2=Medium, 1=Low,)

No	Challenges	Response rate		
		1	2	3
1	Quality problem			
2	Chance to nurture – in house			
3	Poor supplier selection			
4	High cost			
5	Loss of control			
6	Failure to conduct the Outsourcing exercise			
7	Proper planning			
8	Lack of understanding			
9	Low Employee belongings			
10	Conflict of interest between outsourced employees and permanent bank employees.			
11	Difficult to measure service quality			
12	Loss of control over bank key information resources			
13	Quality of workers provided by the supplier is lower than anticipated.			
14	Unethical behavior the employees.			
15	Communication and coordination difficulties			
16	Contract termination problems			
17	Continuous increase in price			

Any others-----

7. Impacts of outsourcing for outsourcing bank service. Please read the statement and put “√” mark in the corresponding column (i.e. 5=Very high, 4=High, 3=Medium, 2=Low, 1=Very low)

Impacts	Response rate				
	1	2	3	4	5
Improve customer’s relationships					
Improve service levels					
Reduce costs					
Improve quality					
Specialize in core competencies					
Competitive advantage					
Improve profitability					
Freed resources					

Any other-----

8. The reason against outsourcing for outsourcing bank service. Please read the statement and put “√” mark in the corresponding column (i.e. 5=Very high, 4=High, 3=Medium, 2=Low, 1=Very low)

Reasons against Outsourcing	Response rate				
	1	2	3	4	5
Loss of jobs					
Loss of confidentiality and security					
Fraudulent use of customer account information					
Loss of managerial control					
Theft of customer funds					
Hidden costs					
Inflexibility creeps in					

Any others -----

**Part III. Open ended Questions related to Outsourcing Practice.**

1. What other problems did you observe in?

Janitorial service-----  
-----  
-----

Security and safety service-----  
-----  
-----

2. What measures should be taken to solve the problems you observed and mentioned above?

Janitorial service-----  
-----  
-----

Security and safety service-----  
-----  
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## **Appendix 2**

### **Addis Ababa University**

#### **School of commerce**

#### **Department of logistics and supply chain management**

##### **Interview Questions answered by Managers and Supervisors of the Outsourcing Administration**

- 1) What are the drivers/reasons that encourage your organization to outsource?
- 2) What benefits the Bunna bank has achieved by outsourcing the non- core functions?
- 3) Do you think that the janitorial, and security service qualities are improved after outsourcing?  
how?
- 4) What are the major challenges the bank faced in relation to outsourcing? Such as:
  - Deciding what to outsource -Vender selection.
  - Change management - Managing the process/Relationship, or
  - Service provider does not perform as per Bunna bank
  - Cost increment more than your expectation
- 5) What new problems emerged due to outsourcing?
- 6) What are the causes of the problems encountered in your organization?
- 7) What type of measure did your organization take to solve problems that faced during or after outsourcing? (If any)
- 8) How does your organization monitors or controls the quality of the outsourced services and, evaluate the performance of service provider?

- 9) How do you rate the service quality of outsourced functions as compared with the previous one?
- 10) Do you think that the service quality and performance of the service provider result in service level agreement? If not, what is/are the reason/s?
- 11) Is there any formal channel of communication with the service provider to discuss the performance and service quality? How often?
- 12) Which non-core business functions have been successfully outsourced by Bunna bank?
- 13) Why is it difficult for Bunna bank to outsource its core business function?
- 14) Is your organization planning to outsource any other activities in the future?
- 15) Would you like to add anything related to the topic that I didn't cover in my questions?